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PRIME MINISTER'S OFFICE
Israel Economic Planning Authority

ISRAEL ECONOMIC DEVELOPMENT

Past Progress and Plan for the Future

FINAL DRAFT.

Jerusalem, March 1968

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ראש הממשלה
THE PRIME MINISTER

During the twenty years of its existence, Israel has multiplied its population more than three times and has absorbed more than a million "newcomers". The economy has developed and absorbed the additional population in productive work in agriculture, industry, transportation and other services.

This development has taken place in spite of the heavy burden of defence forced on us by the hostility of the Arab States. It enabled us to approximately double the average standard of living of the population and to provide all citizens of the State including the "newcomers" with a home, clothing and food, and most other necessities.

The economy's development was made possible only by great efforts of the people of Israel and of World Jewry. It could not have been realized without the large scale flow of capital, Jewish and non-Jewish, public and private into Israel. We are certain that also in the future we shall be able to reach important achievements and that we can rely on assistance from the whole people.

We shall have to mobilize all possible resources to succeed in the tasks before us: to continue building the State and defend it, to attract more immigrants, to develop a viable and stable economy while maintaining full employment and at the same time decreasing the gap in the balance of payments, to raise the level of education and social services, and continue with the policy of dispersal of the population.

In order to organize our efforts to attain these goals we commissioned the Economic Planning Authority to prepare, in cooperation with other Ministries, a proposed comprehensive plan for the years 1968-71. This report which is presented herewith is an important analysis of the economic development of Israel and an effort to propose a concrete and feasible programme intended to guide the economy toward the targets we have fixed.

It is my pleasure to express appreciation to the Director and the staff of the Economic Planning Authority for their dedicated and untiring efforts in preparing this proposed plan.

L. Eshkol

Levi Eshkol

Jerusalem, 26 March 1968

TABLE OF CONTENTS

Page

PREFACE 1

CHAPTER ONE: THE GROWTH OF THE ECONOMY 4

A. Introduction 4

B. Past Development 9

1. Economic Growth by Periods 11
2. Factors Explaining Growth 14
3. The National Product 15
4. Foreign Trade and Economic Independence 17
5. National Income and Factor Payments 21
6. Private Consumption 23
7. Public Consumption 28
8. Gross Domestic Capital Formation 30

C. Plan for 1971 33

1. Projected Economic Growth 33
2. National and Private Income 34
3. Consumption 35
4. Investments 37
5. Gross National Saving 37
6. Foreign Trade and Capital Imports 38
7. Development Trends by Branch of the Economy 39

D. Projected Development Until 1978 44

CHAPTER TWO: POPULATION AND EMPLOYMENT 47

A. Past Development 47

1. The Jewish Population 48
2. The Non-Jewish Population 52
3. The Labor Force 53
4. Employment 58
5. Unemployment 67

B. Population and Employment 1968 —1971 73

1. Introduction and Summary 73
2. Population in 1968 —1971 73

Page

3. Labor Force 75
4. Employment 77
5. Labor Demand, by Economic Branch 79
6. Labor Supply, by Level and Occupation 82
7. Manpower Demand and Supply, by Educational Level and Occupation 82
8. Unemployment 83
9. Labor Mobility 85
10. Forecast for 1978 88

Appendix — Classification of Manpower by Occupation and Level of Training for Purposes of Supply and Demand Forecasts 89

CHAPTER THREE: INVESTMENTS 94

A. Past Development 94

1. The Share of Investments in Israel's Gross National Product and Resources 94
2. Encouragement of Investments 95
3. Investments, by Branch of the Economy 98
4. Investments, by Type of Asset 102
5. Investments by Investing Sector 102
6. Financing of Investments 104
7. Investment Fluctuations 105
8. Capital Stock 106
9. Discards, by Sector 110

B. Investments under the Development Plan 111

1. Coordination of Projected Investment with the Economic Development Plan 111
2. Investment Policy 113
3. Investment Programs 115

CHAPTER FOUR: INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS 123

A. Foreign Relations and their Effect on the Economy 123

1. Access to Markets and International Organizations 123
2. The International Economic Situation 129

B. Past Development of Exports and Imports 131

1. General Background 131
2. Exports 134
3. Imports 141

C. Imports and Exports in the Development Plan for 1971 145

Page
1. General 145
2. Exports 147
3. Imports 158
D. Capital Imports 168
1. Capital Imports 1950 — 1967 168
2. Analysis of Capital Imports Forecast, 1968 — 1971 175

CHAPTER FIVE: SAVINGS

A. Past Development 179
1. Saving in the Private Sector 180
2. Public Saving 184
3. Saving by Non-Profit Organizations 185
B. Savings in the Plan for 1971 187
1. Saving in the Private Sector 188
2. Saving of Non-Profit Institutions 191
3. Public Saving 191
CHAPTER SIX: GOVERNMENT FINANCING 194
I. Past Development 194
1. Taxes on Income 195
2. Taxes on Expenditure 197
3. Property Taxes 198
4. Domestic Loans 199
5. Foreign Sources and the Financing of Government Expenditure 200
II. Taxation Plan for 1971 203
1. The Function of Taxes in the Development Plan 203
2. Forecast of Government Revenue 204
3. Taxes and Public Saving 209
CHAPTER SEVEN: MONETARY POLICY, CREDIT INSTITUTIONS AND CAPITAL MARKETS 213
I. The Monetary Sector 213
1. Constituents of the Monetary Sector 213
2. Sources of Monetary Expansion 215
3. Non-Liquid Deposits 217
4. Monetary Expansion and Inflationary Pressures 218
5. Liquidity of the Banking Institutions 220
6. Bank Credit 224
7. The Structure of the Banking System 230

Page

8. The Assets and Liabilities of the Banking Institutions 232
9. The Bank of Israel and the Administration of Monetary Policy 235
10. Interest-Rates Policy and the Bill Brokerage Market 240

II. The Financial Institutions 244

1. The Structure of the Financial Institutions Sector 244
2. Assets and Liabilities of the Financial Institutions 246
3. The Problem of Value-Linking and the Role of Financial Institutions and Financial Intermediaries 250
4. Social Insurance Funds and Insurance Companies 253
5. The Securities Market 263
6. Summary 270

CHAPTER EIGHT: REGIONAL DISTRIBUTION 276

A. Past Development 276

1. Existing Trends 277
2. Demographic Characteristics of the Jewish Population, by District 283
3. Employment and Unemployment 287
4. Investments 293
5. Standard of Services and Facilities 294
6. Incentives to Economic Activity 297

B. Regional Distribution Plan for 1971

1. Population Dispersal Targets in the Development Areas 302
2. Targets for Population Dispersal in the Coastal Area 304
3. Means of Implementation 304

CHAPTER NINE: AGRICULTURE

A. Past Development 311

1. Introduction 311
2. Summary of the Development 1949—1967 313
3. Agricultural Production 317
4. Agricultural Exports 334
5. Investments and Capital Stock in Agriculture 337
6. Manpower and Productivity in Agriculture 339
7. Government Policy — A Summary 342

Page

B. Agricultural Development Plan 1968—1971 345
- 1. Present Issues of Agriculture 345
- 2. Objectives of Agricultural Planning 347
- 3. Agricultural Output 349
- 4. Agricultural Exports 362
- 5. Investments in Agriculture 365
- 6. Manpower in Agriculture 369
- 7. Input Factors in Agriculture 371
- 8. Product, Productivity and Income 373

CHAPTER TEN: WATER RESOURCES 375

A. Past Development 375
- 1. The Water Potential 375
- 2. Water Consumption 377
- 3. Development of Water Resources 380
- 4. The Cost of Water 381
- 5. Institutional Aspects of Water Supply 382
- 6. Water Supply Problems 383

B. Water Development Plan, 1968—1971 384
- 1. Demand for Water 384
- 2. Water Rates Policy 387
- 3. Water Supply and Required Investments 389
- 4. Desalination of Sea Water 392

CHAPTER ELEVEN: MANUFACTURING AND MINING 394

A. Past Development — General 394
- 1. Summary 394
- 2. Industrial Output 397
- 3. Protection of Local Production 398
- 4. Industrial Exports 400
- 5. Investment in Fixed Assets 404
- 6. Employment and Output per Worker 407
- 7. Composition of Industry by Branch 408
- 8. Structure of Industry 410
- 9. Economic Sectors in Industry 411

B. Past Development, by Sub-Periods 413
- 1. 1950—1954 413
- 2. 1954—1964 414
- 3. 1964—1967 419

C. Industrial Development Plan 1968—1971 423
- 1. Introduction and Summary 423
- 2. Directions of Industrial Development 426
- 3. Industrial Output 428

Page

4. Industrial Exports 431
5. Replacement of Imports 439
6. Required Investments in Fixed Assets 440
7. Efficiency and Productivity 443
8. Industrial Research 444
9. Industrial Manpower Requirements 446

D. Mining 450

1. Minerals and Natural Resources and their Exploitation 452
2. Mineral Processing 455
3. The Development Plan of Mining Branch, 1968 — 1971 456
4. Survey of Development Projects 457

CHAPTER TWELVE: ELECTRICITY 459

A. Past Development 459

B. Electricity Rates 461

C. Future Demand Forecast for Electricity 462

D. Expansion of Generating Capacity 463

CHAPTER THIRTEEN: TRANSPORTATION AND COMMUNICATIONS 467

A. Introduction 467

1. Past Development 468
2. Development Plans for Transportation and Communications, 1968 — 1971 472
3. Future Development — 1972 — 1978 475

B. Overland Transportation 476

1. Past Development 478
2. Development Plan, 1968 — 1971 484

C. Aviation 488

1. Past Development
2. Development Plan, 1968 — 1971 493
3. Inland Aviation — Development and Forecast 496

D. Shipping and Ports 498

1. Past Development 498
2. Development Plan, 1968 — 1971 503

Page

E. Posts and Telecommunications 506
- 1. Past Development 506
- 2. Development Plan 1968—1971 510

CHAPTER FOURTEEN: TOURISM 513

A. Past Development 513
- 1. Introduction 513
- 2. Israel on the International Tourist Map 514
- 3. Characteristics of Tourism to Israel 515
- 4. Income fr[illegible] Tourism 517
- 5. Mode of [illegible]e 518
- 6. The Ho[illegible] 519
- 7. Tourist Transp[illegible] 520

B. Development Plan for Tourism 1968—1971 520
- 1. Incoming Tourists 520
- 2. Forecast of Foreign Currency Income 521
- 3. Forecast of Nights Spent in Hotels 522
- 4. Hotel Room Forecast 522
- 5. Investment and Personnel 524

C. Appendix — Tourist Opinions 525

CHAPTER FIFTEEN: CONSTRUCTION AND HOUSING 526

A. Past Development of Construction 526
- 1. Major Lines of Development 526
- 2. The Structure of the Industry and its Weight in the Economy 527
- 3. Volume of Construction 529
- 4. Input Factors in Construction 536

B. Past Development of Housing 539
- 1. Housing Conditions 539
- 2. Prices of Housing and Land 541
- 3. Housing Finance 542

C. Construction Plans 1968—1971 544
- 1. Objectives 544
- 2. Volume of Construction 545
- 3. Construction Inputs 549
- 4. Major Methods for Achieving the Objectives 550
- 5. Housing Conditions 551

INDEX OF TABLES

CHAPTER ONE: THE GROWTH OF THE ECONOMY

Page

Table 1. Economic Growth in Israel, 1967—1971 5
Table 2. Resources and Their Uses, at 1966 Prices, 1950—1967 (Selected Years) 9
Table 3. Resources and their Uses: Average Annual Percentage Change at Constant and Current Prices, 1950—1967 10
Table 4. Gross National Product Per Capita and Average Annual Rate of Increase in Various Countries, 1955—1966 10
Table 5. Real Average Annual Rise in Capital Stock, Number of Employed, Product, Capital and Efficiency of Productive Factors, 1950—1967 14
Table 6. Gross Domestic Product at Factor Prices, Current Prices, 1950—1966 15
Table 7. Average Annual Increase in Domestic Product by Economic Branch at Constant Prices of 1966 16
Table 8. Average Annual Import Surplus and Its Share in Total Resources, at Current Prices, 1950—1967 18
Table 9. Imports, by Economic Destination, 1949—1966 19
Table 10. Import as Percentage of National Product in Various Countries, 1965 19
Table 11. Annual Averages of Imports and Their Share in the National Product, by Periods, at Current Prices, 1950—1967 20
Table 12. Annual Averages of Exports and Their Share in Resources, at Current Prices, 1950—1967 20
Table 13. Distribution of Payments to Domestic Productive Factors, Current Prices, 1954—1966 22
Table 14. Annual Averages of Private Income, by Sources, 1955—1967 23
Table 15. Private Consumption Per Capita and Its Rate of Increase in Various Countries, 1955—1965 24
Table 16. Composition of Private Consumption at Various Periods, 1950—1967 25
Table 17. Indicators of the Rise in the Standard of Living, 1950—1966 25

Page

Table 18. Composition of Per Capita Private Consumption, 1952 and 1966 26
Table 19. Composition of the Expenditure of Non-Profit Institutions on Consumption, at Current Prices, 1950—1967 28
Table 20. Share of Public Consumption in Resources and in Private Consumption in Various Countries, Average 1955—1964 28
Table 21. Composition of Investment, by Periods, 1954—1966 32
Table 22. Growth of the Israel Economy, 1967—1978 33
Table 23. National Product Growth Factors 34
Table 24. National and Private Income, 1966—1971 34
Table 25. Estimated Composition of Private Consumption, Per Capita 36
Table 26. Indicators of Economic Independence 39
Table 27. Growth of the Israel Economy, 1967—1978 45

CHAPTER TWO: POPULATION AND EMPLOYMENT

Page

Table 1. Sources of Growth of the Jewish Population, 1948—1967 48
Table 2. Immigrants to Israel, 1948—1967 49
Table 3. Jewish Population by Continent of Birth, 1948 and 1953 50
Table 4. Jewish Population, by Age, Continent of Origin and Period of Immigration, 1948—1966 51
Table 5. Sources of Growth of the Non-Jewish Population, 1948—1967 53
Table 6. Population aged 14 and over, by Labor Force Characteristics, 1957—1967 54
Table 7. Population aged 14 and over, 1955—1966 (Selected Years) 54
Table 8. 14—17 Age Group — Jews Studying, by Sex, 1952—1967 (Selected Years) 55
Table 9. Jewish Population Aged 14 and over, by Years of Schooling and Period of Immigration 57
Table 10. Employed Persons by Economic Branch, 1950, 1954, 1958—1966 60
Table 11. Employed Persons by Occupation, Selected Years, 1958—1966 64
Table 12. Jewish Employed Persons, by Occupation and Continent of Birth, 1958—1966, Selected Years 66
Table 13. Labor Force, Daily Average of Unemployed and Relief Workers, by District, 1964—1967 70
Table 14. Total Population and Population Aged 14 and over, 1966—1971 74
Table 15. Population Aged 14 and over, by Labor Force Characteristics, 1966, 1967 and 1971 75
Table 16. Employed Persons in 1966 and Demand for Manpower in 1971, by Economic Branch 77
Table 17. Labor Force, by Educational Level, in 1966 and Manpower Demand and Supply, by Educational Level, in 1971 83
Table 18. Employed Persons by Occupation and Level, 1966 and 1971 84

CHAPTER THREE: INVESTMENTS

Page
Table 1. Share of Investments in Total Resources and Gross Per Capita Investment in Israel and Selected Countries 94
Table 2. Approved New Enterprises and Expansion and Proportion of Plants Producing for Export or Located in Development Areas 97
Table 3. Housing Investments as Percentage of Total Investment in Fixed Assets in Israel and Other Countries, at Selected Periods 99
Table 4. Investments by Branch of the Economy, 1950—1967 101
Table 5. Total Gross Investment in Fixed Assets (except Housing), by Type, in Selected Years 102
Table 6. Gross Investment in Fixed Assets, by Investing Sector, 1952—1966 103
Table 7. Investment in Housing, by Initiating Sector, in Selected Years 103
Table 8. Share of Public Finance in Total Investments, by Economic Branch, 1958—1966 105
Table 9. Percentage Annual Change in Real Gross National Product and Real Investments, 1951—1967 106
Table 10. Capital Stock, Gross Investment and Discards, 1950—1968 107
Table 11. Capital Stock in Fixed Assets — Housing and Productive Capital, in Selected Years 107
Table 12. Percentage Average Annual Increase in Employment, Housing and Productive Capital Stock during Selected Periods 108
Table 13. Capital Stock by Economic Sector, in Selected Years and Real Rates of Increase, by Sector and Period 109
Table 14. Productive Capital Stock per Gainfully Employed Person, by Sector in Selected Years 110
Table 15, Annual Real Rate of Change in Capital Stock per Gainfully Employed Person, by Sector and Period 110
Table 16. Percentage of Discards in Gross Investment and Their Average Rate of Growth by Sector, 1950—1967 111
Table 17. Gross National Product, Total Resources and Gross Investment, 1966, 1967 and 1971 113
Table 18. Rate of Grant as Percentage of Investment in Fixed Assets 113
Table 19. Size of Loan and Rate of Interest 114
Table 20. Investments in 1966—1967 and Projected Investments in 1968—1971, by Sector 116
Table 21. Investments in Fixed Assets, by Sector, in 1967, 1971, 1960—1964, 1965—1967 and 1968—1971 118
Table 22. Projected Investments in Education and Health, 1968—1971 118

Page

Table 23. Gross Capital Stock by Sector, 1968—1972 120

Table 24. Capital Stock Distribution and Average Annual Growth by Sector, 1968—1972 120

Table 25. Capital Stock per Gainfully Employed Peron by Sector, and Per Capita Housing Capital Stock, 1966—1971 121

CHAPTER FOUR: INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS

Page

Table 1. Regional Distribution of Commodity Imports and Exports, 1963—1966 (Average) 127
Table 2. Exports to Common European Market as Percentage of Total Exports, by Main Commodities, 1962—1966 127
Table 3. Annual Growth of GNP in Industrial Countries, 1960—1968 130
Table 4. Imports, Exports, and the Import Surplus in Selected Years, 1950—1967 132
Table 5. Imports and Exports, 1950—1967, Average Rates of Growth by Period 132
Table 6. Import Surplus and Its Share in Resources at the Disposal of the Economy, 1950—1967 133
Table 7. Annual Averages of Imports and Their Share in National Product, by Period, 1950—1967 133
Table 8. Annual Averages of Exports and Their Share in Resources, 1950—1967 133
Table 9. Exports of Goods in Selected Years, 1950—1967 136
Table 10. Imports of Goods by Economic Destination in Selected Years, 1950—1961 142
Table 11. Israel's International Balance of Payments, 1965—1967 and 1971 146
Table 12. Financing of Imports, 1960—1971 147
Table 13. Exports of Goods by Branches, 1964—1967 and 1971 149
Table 14. Main Export Products, 1964—1967 and 1971 151
Table 15. Distribution of Additional Main Exports of Goods by Period, 1961—1971 153
Table 16. Export of Services by Branches, 1964—1967 and 1971 155
Table 17. Receipts from Export of Transportation Services by Sea and Air, 1964—1966 and 1971 156
Table 18. Imports, 1964—1967 and 1971 158
Table 19. Imports of Goods by Economic and Branch Destination, 1964—1967 and 1971 161
Table 20. Additions to Imports and Their Distribution to Economic and Branch Destinations, by Period, 1961—1971 163
Table 21. Imports of Services, 1964—1971, by Branches 165
Table 22. Imports of Transportation Services by Sub-Branches, 1964—1966 and 1971 166
Table 23. Capital Imports to Israel, 1950—1967 173
Table 24. Foreign Exchange Obligations for Long and Medium Terms and Balances, 1954—1967 174
Table 25. Share of Capital Imports in Total Resources and Gross Domestic Investments 174
Table 26. Summary of Major Items of Capital Imports, 1950—1967 174
Table 27. Forecast of Capital Imports to Israel, 1968—1971 176

CHAPTER FIVE: SAVINGS

Page

Table 1. National Saving, at Current Prices in Selected Years, 1950—1966 180
Table 2. National Saving and Investment, 1950—1966 180
Table 3. Gross Private Saving, at Current Prices, during Selected Years, 1950—1966 181
Table 4. Composition of Saving According to Surveys, 1954—1964/65 182
Table 5. Net Saving of the Public Sector, 1957—1966 185
Table 6. Gross Saving by Non-Profit Institutions, 1957—66 185
Table 7. Gross National Saving, 1966, 1971 187
Table 8. Gross Saving of the Private Sector, 1966 and 1971 188
Table 9. Composition of Public Saving in 1966 and 1971 192

CHAPTER SIX: GOVERNMENT FINANCING

		Page
Table 1.	Revenue from Taxes and Compulsory Payments 1950 — 1965	195
Table 2.	Average Income Tax Rate on Fixed Real Income — Married Wage-Earner with Two Children	196
Table 3.	Income Tax Rates in Operation since 1966 — Married Wage-Earner with Two Children	197
Table 4.	Sales of Bonds and Their Share in the Financing of Local Investment	201
Table 5.	Income from Sales of Independence and Development Bonds, 1951 — 1965	202
Table 6.	Tax Revenue Required in 1971	204
Table 7.	Government Revenues from Taxes and Compulsory Payments, 1966 — 1971	205
Table 8.	Revenue from Taxes on Income, 1966 — 1967	206
Table 9.	Taxes on Expenditure, 1966 — 1971	208
Table 10.	Revenues from Service and Licence Fees, 1966 — 1971	208
Table 11.	Projected and Required Gross National Saving, 1971	210

CHAPTER SEVEN: MONETARY POLICY, CREDIT INSTITUTIONS AND CAPITAL MARKETS

Page

Table 1. Changes in Means of Payments, Product, Prices, and Deficit in Current Account of Balance of Payments, 1950—1967 214
Table 2. Monetary Expansion and Its Sources, 1950—1967 216
Table 3. Changes in the Balances of the Less Liquid Deposits, 1955—1967 218
Table 4. Means of Payment Compared to Other Liquid Assets, 1961—1967 220
Table 5. Source of Changes in Liquid Assets of Banking Institutions, 1956—1967 222
Table 6. Cash Holdings, Liquid Assets and Liquidity Ratios of the Banking Institutions, 1955—1967 224
Table 7. Assets of Financial Intermediaries in Israel — Selected Years, 1950—1966 225
Table 8. Distribution of Bank Credit to the Public, by Destination — Selected Years, 1950—1966 227
Table 9. Branch Distribution of Bank Credit by Type, June 1967 228
Table 10. Data on Large Credit Transactions of Banking Institutions at End of Selected Years, 1951—1966 229
Table 11. Developments in the Structure of the Banking System at the End of Selected Years, 1951—1966 231
Table 12. Assets and Liabilities of the Banking Institutions at End of Selected Years, 1951—1966 233
Table 13. Combined Balance Sheet of Groups of Financial Institutions, by Type, 1958, 1962 and 1966 245
Table 14. Assets and Liabilities of the Financial Institutions 1958, 1962 and 1966 247
Table 15. Distribution by Sector of Liabilities and Credit Balances of the Financial Institutions, in 1961 and 1966 248
Table 16. Accumulation of Funds in the Social Insurance Funds, Selected Years, 1952—1966 256
Table 17. Distribution of Assets and Liabilities of the Social Insurance Funds at End of Selected Years, 1952—1966 258
Table 18. Distribution of Assets and Liabilities of Israel Insurance Companies in Selected Years, 1952—1966 260
Table 19. Financial Developments in National Insurance in Selected Years, 1954/55 to 1965/66 262
Table 20. Net New Issues of Securities, 1950—1966 265
Table 21. Issues of Ordinary Shares and Stock Exchange Trading, 1959—1966 266
Table 22. Number of Companies with Ordinary Shares Listed on the Stock Exchange, by Branch, 1961, 1963 and 1965 267
Table 23. Domestic Security Issues and Distribution of Securities Listed on the Stock Exchange, by Type, 1957—1966 269
Table 24. Volume of Trading on the Stock Exchange, 1960—1966 270

CHAPTER EIGHT: REGIONAL DISTRIBUTION

Page

Table 1. Population of Israel in Selected Years, by District, 1948—1966 278
Table 2. The Share of Immigration in the Jewish Population Increment and Population Dispersal, 1948—1966 279
Table 3. Direction of Immigrants to Development Areas, 1960—1966 280
Table 4. Jewish Population Movements between Districts, 1956—1961 281
Table 5. Jewish Population Movements between Districts, 1965 281
Table 6. Change in Composition of the Population, by Continent of Birth and by District, as a Result of Internal Migration, 1965 282
Table 7. Jewish Population by District, Continent of Birth and Period of Immigration, 31 December 1965 284
Table 8. Population of Development Towns and Jewish Population of Israel, by Continent of Birth and Period of Immigration, 31 December 1965 285
Table 9. Jewish Population, by Age and Sub-district 286
Table 10. Urban Jewish Population, by Number of Years of Schooling and Type of Urban Settlement (old or new) 287
Table 11. Employed Persons, by Economic Branch and District, 1963 Average 288
Table 12. Employed Persons by Economic Branch and District, 1966 Average 288
Table 13. Persons Employed in National Public Services in the Tel-Aviv District, 1966 290
Table 14. Employment and Turnover of the Wholesale Trade, by District, 1965/66 291
Table 15. Population Increase and Gross Investment, by District, 1963—1966 293
Table 16. Number of Persons per Physician, by District and by Urban and Rural Areas, 1963 296
Table 17. Share of Public Building in Total Construction, by District and Purpose, 1962—1965 298
Table 18. Population Increase, and Housing Investment, by Source and District, 1963—1966 299
Table 19. Loans Approved by the Industrial Development Bank, by District, 1962—1966 301
Table 20. Population by District, End of 1966, 1971, 1978 303

CHAPTER NINE: AGRICULTURE

Page

Table 1. Agricultural Development — Basic Data, 1949—1967 312
Table 2. Agriculture's Share of the National Economy, 1950, 1958, and 1966 314
Table 3. Agricultural Output and Its Composition, 1949—1967 318
Table 4. Indices of Producers' Prices of Agricultural Output 319
Table 5. Development of Cattle Branch, 1949—1967 320
Table 6. Development of Poultry Branch, 1949—1967 322
Table 7. Development of Citrus Branch, 1949—1967 324
Table 8. Development of Fruit Branch, 1949—1967 327
Table 9. Development of Vegetable Branch, 1949—1967 329
Table 10. Development of Field Crop Branch, 1949—1967 331
Table 11. Development of Agricultural Exports, 1949—1967 335
Table 12. Portion of Exports in Agricultural Production, 1949—1967 336
Table 13. Gross Investments in Agriculture and in Water Supply, 1950—1967 337
Table 14. Gross Capital Stock in Agriculture and Water Supply, 1950—1967 338
Table 15. Gainfully Employed in Agriculture, 1949—1967 339
Table 16. Productivity in Agriculture, 1950—1967 Average Annual Growth Rates 341
Table 17. Subsidies for Agricultural Products from Government Budgets 343
Table 18. Agricultural Production, 1966, Estimate for 1967, and Plan for 1971 350
Table 19. Composition of Poultry Branch Output, 1966, and Plan for 1971 353
Table 20. Composition of Cattle and Sheep Branch Production, 1966, and Plan for 1971 355
Table 21. Import of Dairy Products and Beef, 1966 and Plan for 1971 355
Table 22. Citrus Production by Varieties, 1966, Estimate for 1967, and Plan for 1971 356
Table 23. Destination of Citrus Fruit, 1966, Estimate for 1967, and Plan for 1971 356
Table 24. Fruit Production, 1966, and Plan for 1971 357
Table 25. Industrial Processing of Fruit, 1966 and Plan for 1971 358
Table 26. Export of Fruit, 1966, Estimate for 1967, and Plan for 1971 358
Table 27. Export of Fresh Vegetables, 1966, Estimate for 1967, and Plan for 1971 359
Table 28. Consumption and Supply of Grain, 1965, 1966, and Plan for 1971 361
Table 29. Export of Fresh Farm Produce, 1966, Estimate for 1967, and Plan for 1967 363

		Page
Table 30.	Investment Program for Agriculture, 1967 – 1971	366
Table 31.	Gross Capital Stock in Agriculture, 1966, 1967, and Plan for 1971	368
Table 32.	Direct Labor Input in Agriculture by Branches, 1965 and Plan for 1971	369
Table 33.	Persons Gainfully Employed in Agriculture, by Degree of Skill, 1966, and Plan for 1971	370
Table 34.	Land and Water Utilization, 1965, 1966, and Plan for 1971	372
Table 35.	Purchased Input Components, 1966, Estimate for 1967 and Plan for 1971	372
Table 36.	Agricultural Product, 1966, Estimate for 1967 and Plan for 1971	373

CHAPTER TEN: WATER RESOURCES

		Page
Table 1.	Annual Precipitation in Israel	376
Table 2.	Israel's Water Yields over 30 Years	377
Table 3.	Water Consumption in Israel, by Types of User, 1947/48—1966/67	378
Table 4.	Gross Investment in Fixed Assets for Water Development, 1950—1966	381
Table 5.	Average Real Cost of Water Supply, by Region, 1964/65	382
Table 6.	Effect of Water Saving in Agriculture on Consumption Estimates, 1966/67—1971/72	385
Table 7.	Sweet Water Consumption in 1971/72 and 1966/67 According to Alternative Assumptions	388
Table 8.	Investments and Additional Quantities of Water According to Plan and Operational Budgets of Mekorot Ltd., 1966/67—1968/69	389
Table 9.	Investment Estimates for the Rationalization of Water Consumption and Savings Obtainable, 1966/67—1971/72	390
Table 10.	Investment Estimate for Developing New Water Sources from 1969/70 and Additional Quantities of Water Obtainable	391

CHAPTER ELEVEN: MANUFACTURING AND MINING

		Page
Table 1.	Major Indicators of Industrial Development, 1950—1966	394
Table 2.	Industry's Share in the Economy, 1950—1966 (Selected Years)	397
Table 3.	Development of Industrial Output, 1950—1966	397
Table 4:	Local Output of Products Exposed to Competitive Imports between 1962 and 1966, by Customs Rates	399
Table 5.	Industrial Exports, 1950—1966	401
Table 6.	Development of Industrial Exports, by Branches, 1956—1966	402
Table 7.	Additional Exports of Major Products, 1963—1966	403
Table 8.	Industrial Exports, by Continents and Economic Organizations, 1966	403
Table 9.	Gross Investments in Industry, 1950—1966	404
Table 10.	Stock of Capital, Capital/Output Ratio and Capital per Employed Person, 1950—1966	405
Table 11.	Employment and Output per Worker in Industry, 1950—1966	407
Table 12.	Employment and Output, by Branch of Industry, 1965	409
Table 13.	Industrial Output, by Major Branches of Industry in Various Countries, 1959	410
Table 14.	Persons Employed in Industry, by Sectors and Major Branches, 1965	412
Table 15.	Major Indicators of Industrial Development, 1950—1954	413
Table 16.	Major Indicators of Industrial Development, 1954—1964	415
Table 17.	Major Indicators of Industrial Development, 1964—1967	420
Table 18.	Basic Data on Industrial Development, 1966, 1967, and Forecast for 1971	424
Table 19.	Industry's Role in the Economy, 1966, 1967 and Forecast for 1971	425
Table 20.	Output, and Additional Output, by Uses, 1966—1967	429
Table 21.	Industrial Output, by Branches of Industry, 1966, 1967 and Target for 1971	431
Table 22.	Industrial Exports, 1966, 1967 and Forecast for 1971	433
Table 23.	Industrial Exports and Additional Industrial Exports, by Branches of Industry, 1966—1971	434
Table 24.	Rates of Indirect Tax Refunds per Dollar of Exports, and per Dollar of Added Value	438
Table 25.	Gross Investment in Industry, 1966—1971	442
Table 26.	Estimated Breakdown of Gross Investment, by Branches, 1968—1971	442
Table 27.	Average Output per Worker, 1966, 1967 and Projection for 1971	447

Page

Table 28. Breakdown of Industrial Workers, by Branches, 1966, 1967 and Forecast for 1971 448
Table 29. Persons Employed, and Additional Persons Employed, by Levels of Skill, 1966—1971 448

MINING

Table 1. Exports, Investment and Employment in the Mining Industry (excluding Stone Quarries) 450
Table 2. Exports of Main Minerals, by Countries 451
Table 3. Oil and Natural Gas Output in Israel 454
Table 4. Output of Main Basic Chemicals, 1953—1960 456

CHAPTER TWELVE: ELECTRICITY

Page

Table 1. Breakdown of Electricity Demand 460

Table 2. Installation of Generating Capacity 460

Table 3. Electricity Consumption, 1956—1966, by Main Types of Consumers, and Estimates for 1967—1971 463

Table 4. National Demand for Electricity and Generating Capacity, 1961—1966, and Estimates for 1967—1977 465

Table 5. Estimated Investments for 1966—1978 466

CHAPTER THIRTEEN: TRANSPORTATION AND COMMUNICATIONS

		Page
Table 1.	Transportation and Communications, as Part of the Israel Economy, 1950—1966	468
Table 2.	Composition of Net Domestic Product of Transportation and Communications, in Terms of Current Prices, 1952—1966	470
Table 3.	Breakdown of Investment in Transportation and Communications, 1950—1967	471
Table 4.	Export of Transport Services, by Major Categories, 1959—1966	472
Table 5.	Arrivals in Israel, by Category and Mode of Entrance, 1966, 1967 and 1971	473
Table 6.	Composition of Gross Output by Transportation and Communications Sector, 1966, 1967 and 1971	474
Table 7.	Investment in Transportation, by Branches, 1963—1966 and 1968—1971	475
Table 8.	Truck and Rail Freight Traffic in Israel, 1961, 1966 and Forecast for 1971	477
Table 9.	Annual Per Capita Growth of Passenger Transportation, 1951—1967	478
Table 10.	Number of Motor Vehicles, by Categories, 1950/51—1966/67	478
Table 11.	Freight Hauled by Trucks of More than 2.5 Ton Capacity, by Categories of Freight	480
Table 12.	Trucks, by Size, 1950—1966	480
Table 13.	Indicators of Bus Traffic, 1951—1966	481
Table 14.	GNP Per Capita and Number of Private Cars per Thousand Inhabitants in Various Countries, 1960 and 1965	482
Table 15.	Length of Paved Roads, by Width, 1950—1965	484
Table 16.	Infrastructure Development in Transportation, 1968—1971	487
Table 17.	Costs and Fares in International Flight Passenger Transports, 1965, 1970, 1975	489
Table 18.	Arrivals and Departures of Air Passengers in Israel by Category of Visa, 1950—1966 (Selected Years)	490
Table 19.	Operating Results of El-Al Aircraft, 1950—1966 (Selected Years)	491
Table 20.	Income and Expenditure per Ton-Km in El-Al Passenger and Freight Operations, 1958/59—1965/66	492
Table 21.	International Aircraft, Freight and Mail Traffic, Lod Airport 1949—1966 (Selected Years)	492
Table 22.	International Air Passenger and Freight Traffic to and from Israel, Total and by El Al 1966, 1968, and 1971	494

Page

Table 23. Lod Airport Investment Plan: 1968—1971 495
Table 28. Dry-Cargo Traffic to and from Israel in Selected Years, 1950—1966 499
Table 29. Share of Cargo to and from Israel Carried by Ships Operated by Israeli Companies, in Selected Years, 1958—1966 500
Table 30. Ship Passenger Traffic to and from Israel in Selected Years, 1950—1966 500
Table 31. Revenues of the Israel Merchant Marine by Type of Service, 1963—1966 501
Table 32. Export of Shipping Services, by Type, in Selected Years, 1960—1966 501
Table 33. Dead-Weight Tonnage of Israel's Cargo Ships, by Type, 1960—1966 502
Table 34. Cargo Traffic in Israeli Ports, in Selected Years, 1951—1966 503
Table 35. Development of Postal Services, in Selected Years, 1950—1966 506
Table 36. Turnover of Postal and Telecommunications Services, in Selected Years, 1950—1967 507
Table 37. Quantities of Mail Handled, in Selected Years, 1950—1966 507
Table 38. Telecommunications Services, in Selected Years, 1950—1966 508
Table 39. Average Annual Variation in Demand for Telephones, 1950—1967 508
Table 40. Average Annual Percentage Rates of Changes in Demand for Telephones, Telephone Changes and Cost-of-Living Index, 1951—1967, by Periods 509
Table 41. Increase in Number of Telephones in Various Countries, 1960—1967 509
Table 42. Telephone Services by Districts, 1950—1966 510
Table 43. Postal and Telecommunications Services, 1967, 1971 511
Table 44. New Telephone Installations, 1966—1971, by Districts 511
Table 45. Planned Investment in Fixed Assets of Postal and Telecommunications Services, 1968—1971 512

CHAPTER FOURTEEN: TOURISM

Page

Table 1. Incoming Tourists, 1951—1967 514
Table 2. Incoming Tourists, by Continent of Origin 515
Table 3. Incoming Tourists, by Mode of Entry, 1951—1967 516
Table 4. Foreign Currency Income from Tourism, Total and per Tourist, 1952—1967 517
Table 5. Proceeds of Tourist Industry, by Sub-Branches, 1961 and 1965 518
Table 6. Hotel Nights at Tourist Hotels, 1961—1966 519
Table 7. Hotel Nights per Tourist, by Continent of Residence, 1961—1966 519
Table 8. Hotel Nights, by Class of Hotel and Continent of Residence, 1962 and 1966 520
Table 9. Forecast of Incoming Tourists, by Mode of Entry 521
Table 10. Forecast of Foreign Currency Income 522
Table 11. Hotel Nights Forecast 522
Table 12. Hotel Nights in Selected Places, 1966 and 1971 523
Table 13. Room Construction Required in Selected Places 523

CHAPTER FIFTEEN: CONSTRUCTION AND HOUSING

Page
Table 1. Gross Investment in Construction, by Categories, 1950—1967 527
Table 2. The Construction Industry's Share in the Economy, in Israel and Selected Foreign Countries, 1956 and 1965 528
Table 3. Value and Number of Residential Units Built by Private and Public Sectors, 1950—1967 530
Table 4. Public Housing Units, by Categories, 1949—1966 531
Table 5. Gross Investment in Construction, by Intended Use, 1950—1967 533
Table 6. Annual Changes in Gross Investment in Residential Construction, by Sectors, 1956—1967 534
Table 7. Annual Changes in Government Housing Budget, by Purpose, 1957—1966 534
Table 8. Construction Industry's Influence on Other Industries 535
Table 9. Residential Construction and Population Increase by Districts, 1962—1965 Average 536
Table 10. Indicators of Housing Density in Israel and Other Countries 539
Table 11. Jewish Families, by Number of Persons per Room and Head of Family, Continent of Birth and Date of Immigration 540
Table 12. Floor Space and Number of Rooms in Average Apartment, by Sectors, 1962—1966 (Construction Starts) 541
Table 13. Average Annual Rate of Change in Cost-of-Living Index, Housing Cost Index and Index of Construction Input Costs, 1958—1967 541
Table 14. Gross Investment in Construction, by Intended Use, 1968—1971 545
Table 15. Gross Local Investment, Gross Investment in Construction by Intended Use, and Gross National Product, 1971 (Indices) 545
Table 16. Housing Construction, by Intended Use, 1968—1971 546
Table 17. Investment in Construction, by Sectors of the Economy, 1968—1971 548
Table 18. Investment in Construction for Public Institutions, 1968—1971 549

PREFACE

In accordance with the decision of the Ministerial Committee on Economic Planning, at its meetings of 2.8.1966 and 5.9.1966, the Economic Planning Authority was charged with responsibility for preparing a proposed Economic Plan for 1968—1971, in cooperation with other Ministries. The Six-Day War and its consequences as well as the November 1967 adjustment in the exchange rate necessitated certain modifications in the Plan, as a result of which its completion was delayed until the early months of 1968.

This volume, prepared by the Economic Planning Authority, includes not only the Proposed Economic Plan for 1968—1971 but also a survey of the development of the Israel economy during the twenty years of the State's existence and a general outline of the economy's expected development in the next decade, namely up to 1978.

The Plan has not yet received final approval by the Government.

The Ministerial Committee on Economic Planning set forth the following objectives to guide those responsible for the preparation of the Plan:

1. A reduction in the import surplus to an upper limit of $400 million in 1971.
2. An average annual increase in Gross National Product of 7—9%.
3. Full Employment.
4. Assuring higher welfare and economic standards for the less privileged.
5. Dispersal of the Population.

The Plan has been built from the sectoral plans and projections prepared by the Ministries responsible for each particular sector, within the general terms of reference authorized by the Ministerial Committee for Economic Planning. The coordination of the sectoral plans and their adaptation to the general objectives and terms of reference was the task of the Economic Planning Authority, in consultation and cooperation with the Ministries concerned.

The Plan is not intended to prophesy future development, but rather to set forth ambitious but realistic targets consistent with the established objectives and to determine the lines of policy conducive to the fulfilment of these targets. In other words: the Plan is not an attempt to guess how the economy will evolve or precisely what the economic situation will look like in 1971, but to positively and purposefully propose ways and means whereby the economy can in an orderly and effective manner achieve the objectives the country has set itself.

Even if all the assumptions on which the Plan is based are verified, the quantitative objectives which appear in the Plan will not be realized exactly. The figures are designed to indicate trends and orders of magnitude of the tasks confronting the economy. In a relatively free economy future estimates are always subject to the changing behavioral patterns and responses to new policies. The industrial development on which the Plan is based will depend not only on the overall environment but also on the response to incentives offered private investors through Government's policies and actions.

Also, some of the data on which the Plan is based are liable to change and that applies equally to basic assumptions. Further, a small economy such as that of Israel is considerably influenced by developments in the world at large over which it has only limited influence itself. It is obvious that a change in the international political or economic situation may require the Government to revise its policies.

One of the most important directives given by the Ministerial Committee for the preparation of the Plan was that it should encompass the absorption of 150,000 immigrants between 1967 and 1971. Significant deviations from this number will have important implications for the entire plan, and especially for the employment and building programmes.

The Plan relates to the State of Israel boundaries before the Six-Day War with the single exception that East Jerusalem has been included. Only where some reasonable projections could be made of the economic consequences of the relationships between Israel and the administered territories were they expressly discussed in the Plan.

The Plan does not take into consideration possible effects of Israel's affiliation to the Common Market. The significance of this matter is explained in the relevant sections.

The Plan is predicated on the economic situation and conditions prevailing in Israel during 1966—67. 1967 was a most eventful year, full of dramatic developments both in Israel and in the world economy, and what happened in this year will affect the development of the economy for many years to come. In some cases we used provisional data based on partial information and it is already clear that some of the figures will have to be changed. However, it is expected that the inevitable revisions of the preliminary figures used for 1967 will not significantly alter the contents of the Plan.

In preparing the Plan, the staff of the Economic Planning Authority had the benefit both of the experience and of the material accumulated in the course of its planning and analytical work in former years, especially the experience acquired in the preparation of tentative earlier plans and programmes.

As stated, the chapters of the Plan are based mainly on work in the various economic sectors performed by the staffs of the Ministries concerned. Also, in assuring consistency of the various plans and their general conformity to the established objectives, the Economic Planning Authority received helpful assistance from the various Ministries, including Agriculture, Commerce and Industry, Defence, Development, Education, Finance, Health, Housing, Interior, Labour, Posts, Transport, and Tourism, and from the Bank of Israel.

Special thanks are due to the Research Department of the Bank of Israel for providing needed data and in particular for prepraring the section on "Monetary Policy, Credit Institutions and the Capital Market"; to the staffs

of the following departments in the Ministry of Finance who rendered valuable assistance on a number of subjects: the Budgets Department, the Foreign Exchange Department, the Fuel Administration and the State Revenue Administration; and to the Central Bureau of Statistics which placed important data and material at the Authority's disposal.

We want to express our gratitude to Mr. Robert R. Nathan of Washington D.C., who gave us his valuable advice in all stages of the preparation of the Plan. Our thanks are also due to Dr. Ruth Klinov and Dr. Ephraim Kleiman for their advice in the last stages of our work.

Thanks are hereby extended to all other offices and individuals who assisted us and are not identified.

Some mistakes and errors undoubtedly remain despite repeated review and editing. Responsibility for these and for the presentation must rest solely with us.

Ya'acov Arnon
Director Economic Planning Authority

CHAPTER ONE: THE GROWTH OF THE ECONOMY

A. INTRODUCTION

Israel's twenty years of economic development have seen a more than threefold increase in the population, with the absorption of more than a million immigrants into her economic life, and a substantial increase in the living standards of all sections. This was made possible by an increase in local production together with a considerable inflow of capital from abroad.

This Development Plan is based on the twofold objectives of achieving rapid growth of the Gross National Product and gradually decreasing the country's dependence on capital imports. The tremendous economic development which took place in Israel until 1964 was accompanied by powerful inflationary pressures and an increase in the import surplus, while the reduction of the import surplus in 1965—1967 was achieved at the cost of no increase in the GNP.

During 1955—64 the GNP rose at a rate of 10% annually, while investment grew at a rate of 11% and per capita private consumption at 5% per annum. During this period the deficit in the current account of the balance of payments rose from $ 235 million to $ 570 million.

In order to reverse the trend of increasing reliance on the import surplus, the Government initiated in 1965 a policy aimed at reducing the gap in the current account of the balance of payments and achieving price stability. In 1965—67 the GNP rose by only 3% annually, while investments showed a decline of 15% annually and per capita private consumption a decline of 1% per annum. At the same time, the deficit in the current account of the balance of payments declined to $ 485 million (and would have shown a more marked decline if imports in connection with the Six-Day War had not considerably influenced these figures), and from the middle of 1966 price stability was reached.

During the next four years Israel plans to achieve a difficult combination of goals: rapid growth on the one hand, and the maintenance of the trend towards a gradually decreasing reliance on import surplus, on the other hand.

Rapid economic growth generates strong pressure for increased imports, especially in a country like Israel, which relies so much on imports for essential raw materials and capital goods. Rapid growth also tends to retard the expansion of exports, unless appropriate policies are adopted to restrain domestic demand and encourage exports. Efforts to achieve substantial improvements in the standard of living, reduce social disparities, and attain other welfare objectives are bound to limit the possibilities of reducing the import surplus either by increasing exports or reducing imports.

TABLE 1. Economic growth in Israel, 1967—1971* (in IL million, at 1966 prices)

	1966	1967	1971	Annual rates of growth per cent		Increment 1966-71
				67-71	66-71	
a. Total sources (1+4)	13,295	13,564	18,365	7.9	6.7	—
1. Gross national product	11,943	12,109	17,180	9.2	7.5	100.0
2. Imports	3,932	4,050	5,760	9.2	7.9	—
3. Exports	2,580	2,595	4,575	15.2	12.1	—
4. Import surplus (2—3)	1,352	1,455	1,185	-5.0	-2.6	-5.3
b. Total uses	13,295	13,564	18,365	7.9	6.7	94.7
5. Private consumption	8,000	8,100	10,680	7.2	6.0	50.9
6. Public consumption	2,777	3,554	4,120	3.8	8.2	11.2
7. Gross investment	2,518	1,910	3,565	16.9	7.2	32.6

* Since all figures are at 1966 prices, the rate of exchange is $1 = IL 3, which was the official rate in 1966.

Source: 1967 — estimates of the Central Bureau of Statistics.

As no country can or should depend on an ever increasing import surplus, policies should be followed which will lead to an ever-decreasing dependence on capital inflow.

This choice of the main targets has been made on the assumption that a more rapid rate of growth would necessarily make the economy more dependent on capital imports from abroad, whereas a greater reduction in the import surplus could be attained only by slowing down economic growth and maintaining a fairly high level of unemployment. A further reduction in the import surplus, bringing it down to $ 200 million by 1978, can be achieved by continuing the trends outlined in this plan.

The plan, now submitted, with its quantitative targets, cannot constitute either a hard-and-fast promise or an inevitable prediction. It is a challenge and a call for action. It consists of a set of objectives which, though ambitious, are attainable provided suitable efforts are made and the necessary policy measures are taken and followed through consistently and persistently, but with the necessary flexibility.

The entire development plan revolves around two main axes: more exports and more savings. It depends on an average annual increase of 15 % in exports: from $865 million in 1967 to $ 1,525 million by 1971, and on a rise in the national saving rate from 10 % of the gross national product in 1966 and 4% in 1967 to close on 14% by 1971.

Dependence on capital imports could, conceivably, be reduced in two ways: by replacing imports by local production, or by expanding exports. In view of the high protection already given to a considerable portion of domestic production, most of the improvement in the balance of payments must be achieved by increased exports. To implement the present development plan, exports need not grow at a rate as high as was attained at certain previous periods.

The expansion potential of Israel's traditional export industries — citrus, diamonds, minerals — will be less than in the past. During the period of the development plan it is, therefore, necessary to develop additional export branches — those in which Israel stands a reasonable chance of competing on the world market at prices that pay suitable returns to the producer and to the economy as a whole. The stress will be placed on the development of products in which Israel has a relative advantage thanks to her natural and climatic conditions, which are largely based on science or knowhow, which have a low transport component in relation to the product value, or which do not depend on advantages of scale.

Though industry is expected to furnish most of the additional exports, Israel also intends to develop the export of various services — tourism, marine and air transport, consultation and engineering services, agricultural and engineering project planning, and the like. It is intended that a larger share of output should be exported, which means that certain changes will have to take place in the present structure of industry, agriculture and various services. This calls for considerable investments in equipment and the attraction of the necessary knowhow and initiative. On the other hand, it also calls for a special effort to improve product quality, to be alert to opportunities in the international market, and to raise the standard of training and skill of the available manpower.

As stated, the economic growth and structural changes required for the contemplated expansion of exports is contingent upon a considerable volume of investments, which will have to grow at an annual rate of 17%. For these investments to be made without inflationary pressures being generated and while at the same time reducing dependence on capital imports, it is essential that a larger proportion of capital formation should come out of domestic savings. Hence both private and public consumption must grow less than the Gross National Product and the national income. This is the only way in which the production factors required for investments and the expansion of exports can be diverted from local consumption. A higher rate of saving is therefore no less essential a condition for the attainment of the development goals than the expansion of exports. The achievement of either of these ends is not enough: increasing exports without stepped-up savings — if this were at all possible — would mean that the import surplus would grow; cutting back on the growth of consumption without increased investments and exports would mean slower economic growth and rising unemployment. Moreover, Israel needs and will continue to need foreign entrepreneurs and foreign marketing assistance, which is best attained when associated with foreign investments.

To attain the projected expansion of exports and procure the required investments, the Government will give special preference, by means of the Law for the Encouragement of Capital investments, as amended in 1967, to export-oriented investments. Under this Law investors are entitled to Government grants to cover part of their investment and, in addition to benefiting from various tax concessions, are allowed low-interest working capital loans out of a special export fund, as well as various other privileges. Government will also encourage infrastructure investments designed to facilitate exports.

Some imports may also be replaceable by local production, by the local manufacture of spare parts for imported equipment, improved production of parts of some products, and the like. Certain plants at present engaged in the replacement of imports might also, eventually, turn to export production. In order to bring about further rationalization of production and make Israel's industry better able to compete on the international market, the Government will continue its policy of exposing domestic producers to competitive imports and relating tariff protection to added value.

During the period of the development plan, the Government's fiscal and monetary policy must be primarily designed to assure the required rate of saving and volume of investments. In timing its expenditures, the Government will adopt stabilization policies to prevent the creation of demand surpluses and pressures for rising prices on the domestic market, which might impair the export drive.

The structural changes essential for economic independence necessarily require much time and cannot be fully accomplished during the brief period of four years. Some of the Government measures contemplated in the plan, are, therefore, designed to create a momentum which will ensure that this process will continue after 1971.

During 1968—1971, employment is expected to increase by 200,000 to a total of about 1,032,000 in 1971, as against 831,000 in 1967. Unemployment is expected to go down from about 10% in 1967 to about 4% in 1971.

The necessary changes in Israel's economic structure will also bring about changes in the occupational structure of the labour force. The Government will assure a reasonable income to the temporarily unemployed, either by unemployment grants or by relief work.

One of the main difficulties to be overcome is a possible bottleneck in coordination between the skills and qualifications of the labour force and the demand for various types of labour. At present, no exact data are available on the surplus demand or supply that may be expected in the various occupations, and this aspect should be investigated as soon as possible in order to draw the necessary conclusions regarding vocational training and guidance. If the necessary steps are taken in good time it will be possible to avoid the existence of a surplus demand for labour side by side with persistent pockets of unemployment, a situation which will make it difficult to balance the labour market and maintain stable wages and prices.

The social goals of the development plan — the reduction of existing disparities — may be attained on three interconnected planes: social services, slum clearance, and development of backward areas. Efforts will be made to raise the standards of the social services with special stress on the more deprived strata of the population. In view of the close connection between education and income, with the resultant vicious circle, the Government will concentrate on raising the standard of education of the less advanced sectors by longer school days and graded fees in the secondary schools. The plan also envisages progress in slum clearance projects designed to improve the housing conditions of the underprivileged.

The fact that a high proportion of Israel's population and economic activity is concentrated in the coastal area and its urban agglomerations, together with the need to absorb new immigrants and improve the security situation, has made the dispersal of the population one of the major national goals. The main burden now falls on the development towns, which are largely based on industry, rather than on the strictly rur communities. The new industrial plants set up in these development towns provide a stable source of employment, which assures the population of an adequate standard of living and makes for the formation of a well-knit community. The Government will continue to foster the industrialization of these areas by means of the Law for the Encouragement of Capital Investments and other measures, and will continue to improve their social services by expanding schools, building new ones, supplying better qualified teachers and providing additional clinics and doctors.

A considerable portion of the production and investment programmes included in the plan will be undertaken by the private sector. The fulfillment of the plan's objectives will, therefore, depend largely on the behaviour of the individual units that make up this sector. The plan lays down a logical sequence of priorities and major measures to implement these policies and presents the individual economic units with the general goals to be attained, together with the projected development trends, so that they may be able to act accordingly. Hence the Government measures indicated in the plan are designed to bring about such responses from private entrepreneurs as will assume the fulfillment of the plan.

Rather than providing definite answers, the plan reveals the problems which Israel and its Government have to face up to in order to attain the desirable economic and social goals. Not all questions have found a clear-cut answer — sometimes because essential information was missing, and sometimes because the answer depends on policy decisions that have not yet been made. Although targets and priorities have been laid down, the means leading to their implementation have not always been fully specified. It is clear, however, that if any of the targets is not achieved, general and individual progress will be hampered; every possibl effort, therefore, should be made and must be made to achieve them.

The plan presents a combination of attainable economic targets translat into quantitative terms, and includes a set of Government policies essentia for achieving these targets. It represents an integrated set of objectives which definitely seems attainable, provided it is backed by appropriate Government policies and the concerted efforts of all sectors of the economy to rationalize production, to exercise the necessary self-restrain in consumption, and to step up the rate of savings.

B. PAST DEVELOPMENT

Rapid growth has characterized Israel's economy ever since its establishment, notwithstanding brief periods of sluggishness.

In 1967, the gross national product was IL 12,109 million, 4.5 times as great, in real terms, as in 1950,[1] representing an average annual growth of 9.3%.

TABLE 2. Resources and their Uses, at 1966 Prices, 1950–1967 (Selected Years) (IL Million)

	1950	1954	1959	1964	1967
A.					
1. Total resources	3,774	5,058	7,781	12,667	13,564
Gross national product	2,677	4,222	6,840	10,926	12,109
Import surplus	1,097	836	951	1,741	1,455
2. Total Uses of resources	3,774	5,058	7,791	12,667	13,564
Private consumption	1,850	2,902	4,440	7,165	8,100
Public consumption	758	1,037	1,536	2,379	3,554
Gross investment	1,166	1,119	1,815	3,123	1,910
Import surplus in million $	288	241	314	570	485
B. Resources and Uses per Capita, at 1966 prices (IL)					
1. Resources	3,564	2,994	3,778	5,113	5,004
Gross national product	2,528	2,499	3,317	4,410	4,467
Import surplus	1,036	495	461	703	537
2. Uses of resources per capita	3,564	2,994	3,778	5,113	5,004
Private consumption	1,747	1,718	2,153	2,892	2,988
Public consumption	716	614	745	960	1,311
Gross investment per capita	1,101	662	880	1,261	705

Source: Central Bureau of Statistics

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[1] No data are available for previous years.

TABLE 3. Resources and their Uses: Average Annual Percentage Change at Constant and Current Prices, 1950 — 1967

	1950—1967	1950—1954	-1955—1959	1960—1964	-1965—1967	1950—1967	1950—1954	1955—1959	1960—1964	1965—1967
	Constant	Constant	Constant	Constant	Constant	Current	Current	Current	Current	Current
Total resources	7.8	7.6	9.0	10.2	2.5	20.4	39.0	16.5	18.7	7.5
Gross national product	9.3	12.1	10.1	9.8	3.5	21.1	40.0	17.8	17.8	9.5
Import surplus	1.7	— 6.6	2.6	12.9	— 5.8	16.1	34.0	9.1	24.1	— 5.0
Private consumption	9.1	11.9	8.9	10.1	4.2	20.6	40.4	15.9	17.1	10.4
Public consumption	9.5	8.1	8.2	9.1	4.3	24.0	35.0	18.4	19.3	22.5
Gross investment	2.9	— 0.4	10.2	11.5	— 15.1	16.5	38.0	16.5	22.7	— 13.5

Source: No data are available for previous years.

TABLE 4. Gross National Product Per Capita and Average Annual Rate of Increase in Various Countries, , 1955 — 1966

	Product per capita ($)	Product per capita	
		GNP per cent	GNP per capita per cent
Israel*	1,130	9.3	3.4
Japan	760	9.6	8.5
Greece**	600	7.3	6.6
Italy	960	5.5	4.9
Portugal	370	5.4	4.8
West Germany	1,620	5.3	4.1
Denmark	1,740	5.0	4.3
France †	1,620	5.0	3.6
Iceland†	1,630	4.8	2.8
Austria	1,080	4.6	4.2
Canada	2,100	4.5	2.3
Sweden ††	2,130	4.5	3.7
Switzerland	2,150	4.3	2.3
Norway	1,620	4.4	3.5
Turkey†	230	4.3	1.4
Ireland††	830	4.2	4.2
Belgium	1,540	3.6	2.9
U. S. A.	3,240	3.5	1.9
U. K.	1,550	2.9	2.2
European Common Market Countries ‡	—	5.2	4.2

* Israel 1950 — 67. During 1955 — 1964 national product rose by 9.6% and national product per capita by 5.5%.

** 1948 — 1965

† 1955 — 1965

†† 1958 — 1966

‡ 1955 — 1967

Sources: National Statistics Accounts 1964 — 55. National product per capita in 1965: World Bank Atlas, International Financial Statistics 1966 — 1965 (at official exchange rates).

GROSS DOMESTIC PRODUCT BY ECONOMIC BRANCH IN 1986 PRICES (Percentage)

At current prices, the Gross National product rose by an annual average of 22%; the considerable difference between the real and nominal growth arises from the rapid increase in prices during the period, which averaged some 11.5% per annum. The rapid rise in local uses — investment and consumption — was one of the principal factors leading to inflationary pressures, which brought about rapid increases in nominal income and in prices, and increased import surpluses.

The population of Israel has increased approximately threefold since 1950, and reached 2,711,000 in 1967. Per capita national product amounted to about IL 4,500 in 1967 — almost twice as much in real terms as in 1950 — representing an average annual rise of 3.4%.

Table 4 indicates that the development of the Israeli economy was rapid even when compared to other countries. As a consequence of the rapid increase in the population, national product per capita grew at a slower rate, similar to that of Norway and Sweden. The level of national product per capita in Israel in 1950 equalled that of West European countries like Belgium and Austria.

1. ECONOMIC GROWTH BY PERIODS

In 1948—1949, the State of Israel was at war with the Arab States, and from June 1948 to the end of 1949, 200,000 immigrants arrived, about one-third as many as the total Jewish population in Palestine in 1948. These two phenomena determined the nature of the country's economic activity until the beginning of the 1950s. The fighting necessitated the conscription of a considerable portion of Israel's manpower, and civilian economic activity was limited, whilst most of the productive effort was devoted to supplies for the population. The increase in population led to an expansion of manpower and increased the demand for consumption and investment goods. The problem of food supply, which had become more severe, was solved by large imports.

With the cessation of hostilities and the continuous and rapid influx of immingrants until 1951, the need arose to absorb mass immigration in the economy and supply food to the growing population. The consequences of the Second World War and the War of Independence demanded efforts to expand the productive basis of the economy which in addition to finding living quarters for the masses of newcomers.

Up to 1954, hundreds of new villages were established throughout the country, in which thousands of new immigrants were absorbed, and a start was made with the building of roads to link them to the main population centers. All these factors combined to create a high level in economic activity, originating in the surplus demand of the public sector, accompanied, of course, by considerable inflationary pressure. The inflationary pressures and the nominal rise in incomes during the previous years had led to an increase in imports required for defence and immigration, without a parallel rise in exports. In 1952, the Government decided on a policy of restraint, intended to halt the suppressed inflation, stop deficit financing and slow down the rise in the money supply. The aim of the new economic policy, which included the devaluation of the Israel Pound, was to reduce the deficit in current account in the balance of payments by increasing the profitability of exports and making imports more expensive. In 1953, these measures led to, inter alia, a fall in national product and private consumption per capita and a marked rise in unemployment. Capital imports until the end of 1954 did not catch up with the growth in the deficit on current account and this, in turn, caused a dwindling of the State's foreign currency balances until their complete disappearance in 1953. The beginnings of the Reparations agreement in 1954 and the Independence and Development Bond Drive made it possible to step up investment and consumption.

1955—1964 was a period of rapid expansion. Gross national product rose annually by 10% on the average and exports by 18%. The rise in national income and private incomes was accompanied by an annual growth of some 9% in private consumption. The Government's policy of encouraging investment, as well as the economic prosperity, promoted a rise in investments in all branches of the economy. In 1960—64, an acceleration of domestic economic activity occurred, which was reflected by a rapid rise in national product (about 11% per annum in real terms), consumption and investment. Pressure of demand led to a rise in local prices and costs of production, a process which caused a fall in the competitiveness of Israeli products abroad. The rapid rise in the means of payment and the continued tendency to increased pressure by domestic demand in 1963 and 1964 speeded up the rise in production costs and the decline in competitiveness in foreign markets. Competition from the local market kept down the rate of growth of exports to an average of 14% in 1960—64 as compared with 19% in 1955—59. The rise in incomes caused a rapid rise in imports — at a rate of 12% as compared with 8% in 1955—59. In 1964, the deficit on current account reached a peak at $ 570 million.

The continuation of these trends in consumption and investment would have led to a considerable rise in the import surplus, which might have exhausted foreign currency balances and caused upheavals in the economy. The Government, therefore, decided to introduce a change into the structure of the economy which would accelerate the expansion of exports and reduce the gap in the balance of payments by increasing the competitiveness of local products abroad whilst restraining the general rate of growth. In order to execute this policy, the Goverment decided to moderate the rate of expansion of public civilian consumption and reduce Government investment (particularly in Government and private building), also to adopt a monetary policy of restraint, and to raise indirect taxes on various goods in order to limit the public's purchasing power. At the same time, the Government considerably increased, especially in 1966 and 1967 export incentives, both direct and indirect.

This policy was accompanied by a number of phenomena which intensified the recession in 1965— 67 to a point beyond what was originally planned. These included a substantial fall in the number of immigrants in 1965, following the immigration wave in 1960—64, to 29,000 in 1965, and 21,000 in 1966, which caused a falling off in the growth of aggregate demand. A number of large development projects were completed towards the end of this period, without plans being ready for new projects in their stead, thus aggravating the recession in building, transport and some industries.

The recession was reflected by a halt in the growth of the national product and a considerable rise in unemployment. During 1965— 67, national product rose only by 3.5% per annum,[2] while gross capital formation contracted by a third, amounting to IL 1,900 million in 1967 as compared with IL 3,000 million in 1965—66, and private consumption rose by only about 4.1%[3] per annum. From the beginning of 1965, till the end of 1967, the numbers employed did not expand at all and the addition to the labour force caused a threefold rise in the number of unemployed.

In the course of the recession, the import surplus dropped from $ 570 million in 1964 to $ 450 million in 1966. In 1967, however, mainly in view of the extraordinary security expenditure, the import surplus rose somewhat to $485[4] million (which was still some $ 100 million less than in 1964). The main factor in the decrease in the surplus was the general decline in imports, especially of investment goods and consumer durables. Nevertheless, despite the fall in investments and the moderation in the growth of capital stock which accompanied the stability in prices and wages during the past two years, the recession did not succeed in promoting a sufficient expansion of exports. The devaluation of November 1967 has not yet managed to bring about a conspicuous change in this trend. The surplus in the balance of trade decreased from $ 391 million in 1964 to about $ 140 million in 1967. Import surplus of services increased from $179 million in 1964 to about $320 million in 1967. The number of employed in construction decreased substantially, but the process of their absorption in the productive industries is far from complicated.

Change in the structure of employment, production or investment is a long process. During the first half of 1967, economic activity reached its lowest point, while unemployment reached its peak. In April 1967 industrial production was 15% lower than in April 1966, and the daily average of unemployed registered in labor exchanges was 17,229, as compared with 4,349 in April 1966 and 2,493 in April 1965.

At the second quarter of 1967 there was a change in the trend of economic development, which was reflected by a rise in economic activity and employment, a process which increased after the Six Day War. Among the main contributory factors was the influence of the Government's activities connected with security, such as the repair and replacement of destroyed equipment and the renewal of emergency stocks of essential equipment and materials. The result of these activities was a recovery in certain branches of industry and transport. The process was also helped along by the considerable deficit financing of the Government's activities and the optimism of the public after the victory. The last months of 1967 saw a rise in output and employment; the index of industrial production in December 1967 reached the level of the first quarter of 1966, while the daily average of registered unemployed dropped to 11,000 in December 1967, as compared with 17,229 in April. In the most recent years the level of prices and wages remained stable, labor relations were more harmonious once negotiations resulted in less strikes, and the deficit in the balance of payments, especially the balance of trade, decreased considerably.

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2) National product rose by 8% in 1965, 0.6% in 1966 and 1.2% in 1967.

3) Private consumption per capita rose by 4.6% in 1965, 0.6% in 1966 and decreased 2% in 1967.

4) While preparing this book, there were no reliable numbers of the Balances of Payments by the Central Bureau of Statistics. Later information shows that this approximation may be biased.

2. FACTORS EXPLAINING GROWTH

During the period 1950—67, factors of production — capital stock and number of employees — increased at an annual rate of 6% on the average. The national product grew at an average annual rate of 9.3%, which means two factors explain the growth in the national product: the expansion of the labor force and the rise in capital stock.

Between 1950 and 1967, product per employed doubled and reached IL 14,000. This increase is a reflection of the rise in capital intensity on the one hand and of an improvement in the standard of the labor force — due to a higher skill, better integration and improvements in management — on the other hand.

The threefold increase in the population by mass immigration and natural increase provided the sources for a rapid expansion of the civilian labor force, which reached some 927,000 in 1967, as compared with some 450,000 in 1950 — an increase of 477,000 over seventeen years. The number of employed during this period doubled, totalling 831,000 in 1967.

Gross capital stock rose eightfold from 1950 to 1967 and reached IL 19,430 million, while gross capital stock per person employed rose fourfold to approximately IL 23,200 (1966 prices).

TABLE 5. Real Average Annual Rise in Capital Stock, Numbers Employed, Product, Capital and Efficiency of Productive Factors, 1950—1967 (Percentages)
Basis; First year in each period

Period	Capital stock	Number employed	Capital per person employed	Rise in inputs*	Product per employee	Rise in product	Efficiency of productive factors
1950—67	12.9	4.2	8.4	5.9	4.9	9.3	3.1
1950—54	19.0	7.2	11.0	9.6	4.6	12.1	2.3
1955—64	11.6	4.4	6.8	5.8	5.2	9.9	3.8
1965—67	8.5	−1.0	9.4	0.9	4.5	3.5	2.6

* Assuming weight of capital rise 0.20 and of employed 0.80.

Source: Rise in inputs according to Dr. H.L Gaathon, Economic productivity in Israel, Bank of Israel. Rise in national product according to Central Bureau of Statistics.

During the whole period, national product rose in higher rate of some 70% than the weighted rise in inputs. The rapid rise of the capital stock during 1950—54, which was due to both the accelerated rate of investment and the low level which existed in 1950, reflected the considerable rise in productive capacity added to the economy during the period. Capital stock per person employed rose by 11% per annum to IL 8,900 in 1954 (at 1966 prices). Despite the difficulties in absorbing the new manpower, which involved a change of vocation by thousands of workers, the acquisition of the language, and acclimatization, product per worker increased on the average by 4.6% per annum and amounted to IL 7,590 in 1954 (at 1966 prices). Productivity rose on the average by 2.3% per annum during the period.

During 1955—64, which was a period of rapid growth, national product rose on the average by 10% per annum — approximately 45% more than the rise in inputs. In spite of the slower increase in capital intensity per worker, product per worker rose on the average by about 5.2% per annum, owing to, inter alia, integration of the new immigrants into the labor force, acquisition of trades, experience at work and improvements in management.

The 1965—67 recession was accompanied by a deceleration in the growth of capital stock and a drop in the number of persons employed. The result was a substantial rise in capital stock per worker, and some decrease in the rate of capital utilization.

3. PRODUCT

Notwithstanding the rapid rate of growth of the Israeli economy, the structure of economic activity in 1967 was remarkable similar to 1950, although substantial changes occurred in the interim.

TABLE 6. Gross Domestic Product* at Factor Prices, Current Prices, 1950—1966

	1950—54	1955—59	1960—64	1965—66
Total Gross Domestic Product	100.0	100.0	100.0	100.0
Agriculture and irrigation	12.3	14.1	12.0	9.8
Industry and mining	24.9	24.2	25.8	24.6
Transport and communication	7.7	8.1	8.9	9.5
The service of the public sector and non-profit institutions **	19.4	18.4	19.9	24.1
Other sectors †	35.7	35.2	33.4	32.0

* Excluding product originating in housing services

** E.g., Government, National Institutions and health services of Histadrut Medical Insurance Fund, (Kupat Holim)

† Including electricity, construction and private commercial services.

Source: Dr. A.L. Gaathon: Economic Productivity in Israel.

The share of agriculture in the total domestic product rose from 11% in 1950 to about 15% in 1958, but fell from then onwards to less than 10% in 1966. During 1950—54, the product of this sector developed rapidly, in both real and nominal terms. From 1955 onwards, prices rose at a slower rate in agriculture than in the other sectors, while the rate of real growth slowed down owing to limitations in productive factors (land and water), and in local demand for agricultural products.

Manufacturing industry contributed some 27% to the domestic product in 1950. In the early 1950s, it developed at a slower rate than other economic sectors. The population increase during 1950—54 created a greater demand for industrial products and consequently their prices rose rapidly.

TABLE 7. Average Annual Increase in Domestic Product by Economic Branch at Constant Prices of 1966.

	1950—54	1955—64	1965—66
Gross domestic product	12.2	10.6	0.1
Agriculture and irrigation	13.6	11.5	0.8
Industry and mining	4.2	12.2	1.8
Transport and communication	17.9	11.7	−0.5
Public sector and non-profit institutions	16.5	6.7	10.4
Rest of private sector	15.6	10.9	−7.2

Source: Dr. A. L. Gaathon: "Economic Productivity in Israel," to be published shortly.

From the mid-1950s, industrial development was accelerated. The Reparations Agreement between the Governments of West Germany and Israel made it possible to develop new industries and replace obsolete equipment. During this period there was a growing feeling that dependence on capital imports could not be reduced without an energetic development of export industries, and industry indeed grew much faster than the other branches during 1955—64.

In recent years the Government's policy of restraint in local demand resulted in slowing down and even decreasing manufacturing activity. At first, secondary industries, whose products were used for construction, were hit. Later, the general demand for industrial products declined, following the rise in unemployment and the fall in real private incomes. The rise in industrial production slowed down; it even fell in 1966, reaching its lowest point in the first quarter of 1967. In the last years, especially in 1966, industry has been adversely affected. In 1967 there was some improvement.

The prices of the industrial product rose more gradually than those of the general domestic product, if somewhat faster than the prices of the agricultural product. This slow rise in prices is reflected by the absence of almost any change in the share of industry in the total domestic products at current prices.

Transport and communication is the only branch whose share in the product has constantly increased — from about 7% of total gross domestic product in 1950 to about 9% in 1966; it has grown more rapidly than other branches of the economy. Price changes hardly affected it, since its prices rose to the same extent as those of the total domestic product. Whilst investment in the 1950s was concentrated mainly on the development of the road network and the widening of existing roads, the receipt of reparations from West Germany also facilitated rapid development in land and sea transport, shipping and modernization of telephone serveces and other communications.

The construction industry began to prosper with the arrival in the early 1950s of numerous immigrants who had to be housed. During the boom years in construction, it supplied some 10% of the total domestic product. The slowdown in the rate of immigration led to a decrease in the demand for dwellings, which was set off, to a large extent, by the rise in the demand for better quality housing accompanying the rise in private income. During 1962—64, the industry once again became prosperous, as immigration to Israel increased and personal restitution payments from Germany increased the demand for dwellings. The activity in construction fell by 20% in each of the years 1966 and 1967, following the recession policy.

Private and public services accounted for some 50% of gross domestic product. The services of the public sector and non-profit institutions[5] represented about one-third of the domestic product throughout the entire period. The high proportion of the public sector's services is mainly due to the burden of defence and the fact that Israel is a State in which the public sector is largely responsible for ensuring the welfare of its citizens by supplying education, health and welfare. The share of private and commercial services such as banking, commerce or personal services, constituted approximately 25% of the domestic product during most of the time. Capital imports enabled such a high proportion of services in the product to be maintained by raising both private and those of the public and non-profit institutions incomes and hence the demand for services too. Services enjoy a "natural" protection against competitive imports, since international trade deals mainly with goods and leaves each country to supply itself with most services.

The rise in the prices of services was higher than the rise in prices of agricultural, industrial and transport products. The rise in relative prices is mostly a reflection of the conditions prevailing in the labor market and the rise in the wage rates in the services.

4. FOREIGN TRADE AND ECONOMIC INDEPENDENCE

In 1967, the import surplus totalled $ 485 million, as compared with $ 285 million in 1950. Until 1954, considerable efforts were made to limit imports, resulting in a reduction of 2% in the import surplus, which was only $ 230 million in that year. The rapid economic growth and the increase in domestic demand during 1955—64 were accompanied by a rise in the import surplus, which reached a record of $ 570 million in 1964.[6] The recession of 1966—67 slowed down the rise in imports, so that the import surplus fell to $ 450 million in 1966. Security needs and the recovery in economic activity in 1967 were accompanied by a rise in the import surplus to $485 million[7] — $140 million in the trade balance.

Since the establishment of the State, long- and medium-term capital imports totalled approximately $ 7,000 million. Transfer payments — the United Jewish Appeal, personal restitutions and reparations from Germany, as well as institutional and personal remittances — constituted approximately 70% of total capital imports, the remainder coming from short- and long-term loans and investments from abroad, including $ 720 million from Independence and Development Bonds still to be repaid.

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[5] Administrative, health, education, welfare and security services.

[6] Import trade surplus totaled $ 391 million and import service supplies totaled $ 179 million.

[7] Including $ 20 million import surplus in trade with the occupied territories. (See note 3.)

From 1958 onwards, capital imports exceeded the deficit on current account and the economy, therefore, began to accumulate foreign currency reserves. The accumulation was accelerated from 1961 and amounted to about $ 845 million by the end of 1967.

a. Import surplus

The import surplus throughout the period under survey enabled a high level of investment and consumption — beyond domestic resources — to be maintained and facilitated the maintenance of the economy's rapid rate of economic growth. On the other hand, the import surplus is a reflection of the economy's dependence on capital imports from abroad.

However, two encouraging trends accompanied the process of growth during the entire period surveyed here: a fall in the share of the import surplus in total resources and the accumulation of foreign currency balances. Both these factors reflect a trend towards reducing dependence on capital import from abroad and lessen the danger of economic upheaval in the case of a reduction in the proportions of capital import.

TABLE 8. Average Annual Import Surplus and its Share in Total Resources, at Current Prices,* 1950 — 1967

	1950 — 54	1955 — 59	1960 — 64	1965 — 67
Resources at disposal of economy (IL million)	1,335.0	3,726.0	7,962.0	12,864.0
Import surplus ($ million)	292.5	324.9	440.7	490.6
Import surplus as percentage of resources, annual averages	18.7	16.4	14.6	11.5
Import surplus per capita ($)	192	170	195	187

* Data in dollars are calculated at official rates of exchange.

Source: Central Bureau of Statistics.

b. Trends in imports

Being poor in natural resources, Israel has been compelled to resort to large and varied imports, which reached approximately $ 1,350 million in 1967 — over four times as much as in 1950 — and constituted some 30 % of the national product in the 1950s and some 35 % in recent years.

During all periods the policy with regard to custom tariff has been based in three main principles:

a) maintaining a low tariff in capital goods;
b) encouraging local production by fixing lower tariffs for raw materials and components, than for finished products;
c) maintaining low tariffs for essential goods and fixing higher tariffs for luxuries.

Between 1950 and 1967, the share of consumer goods in total imports fell from 32% to 10%, while the share of investment goods in commodity imports did not change and remained between 17% and 25%, and the share of production inputs of total imports rose from about 46% in 1950 to about 70% in the 1960s.

TABLE 9. Imports, by Economic Destination, 1949 — 1966

Periodic Average	Total Imports	Consumer Goods	Production Inputs	Investment Goods
1949 — 52	100.0	26.0	51.0	23.0
1955 — 57	100.0	13.3	66.0	20.7
1960 — 62	100.0	8.0	69.0	23.0
1965 — 66	100.0	10.0	69.4	20.7

Israel, as most other smaller countries which are developed or developing, relies heavily on international trade. They generally possess few natural resources and small local markets, and therefore specialize in the production of a limited range of products for export whilst importing many others, while large economies usually possess more varied natural resources and larger markets, which require a lesser degree of reliance in international trade. Table 10 shows that there is a correlation between the size of a country, its national product per capita and the share of imports in the national product.

TABLE 10. Import as Percentage of National Product in Various Countries, 1965

Country	GNP ($ million)	Product per capita $	Import as Percentage of Product
U.S.A.	630,504	3,240	4.3
Denmark*	8,282	1,740	31.0
France*	79,380	1,620	13.7
Norway	6,026	1,540	41.0
Holland*	16,714	1,360	46.8
Ireland	2,382	830	38.8
Cyprus	386	640	36.0
Jordan*	440	220	37.9
Israel**	2,938	1,130	37.1

* The data refer to the average of the years 1964 — 1966.

** The data refer to the average of the years 1962 — 1966.

Until 1954, numerous restrictions were imposed on imports, particularly in view of the shortage of foreign currency, as a result of which they expanded at a very slow rate of 2% per annum on the average, reaching $ 375 million by 1954, as compared with $ 333 million in 1950. During these years, most of the economy's resources were devoted to the absorption of immigration, mainly by investments in housing and the development of agriculture — branches in which the import component was relatively low. The austerity prevailing at the time restrained the growth of private consumption and, as a consequence, of imports too.

TABLE 11. Annual Averages of Imports and their Share in the National Product, by Periods, at Current Prices,* : 1950 — 1967

	1950 — 64	1955 — 59	1960 — 64	1965 — 67
Imports ($ million)	379	531	933	1,298
Imports as percentage of GNP	30.5	32.2	35.4	34.1

* Calculated according to official exchange rates.

Source: Central Bureau of Statistics.

During 1955 — 64, the period of rapid growth, there was a steep rise in imports. In 1960, there was an acceleration in the expansion of economic activity and the growth of imports. In 1962, with the devaluation of the currency, the Government announced its policy of liberalization of trade; in the first stage, it replaced administrative licensing by fiscal protection.

C. TRENDS IN EXPORTS

Exports in 1967 totalled approximately $ 865 million — twenty times as much as in 1950. Together with their rapid expansion, their composition changed: the share of the traditional export commodities, citrus and diamonds, fell, and that of other commodities and the services rose. The rapid expansion of exports was also reflected in their increasingly large share in the use of resources: from some 7% in the early 1950s to some 20% in recent years.

TABLE 12. Annual Averages of Exports and their Share in Resources, at Current Prices, 1950 — 1967

	1950 — 54	1955 — 59	1960 — 64	1965 — 67
Exports as percentage of resources*	7.2	10.2	16.6	19.6
Percentage rise in exports	36.8	18.6	13.9	7.8

* Calculated according to official rates of exchange.

Source: Central Bureau of Statistics.

Exports are confronted by serious difficulties. The considerable distan of Israel from potential markets and the need to import a large part of its raw materials enlarge the cost of production, limit the variety of goods for export. The expansion of the domestic market and the rapid increase in prices and wages, whilst exchange rates were held constant, increased the costs of exports and lowered the competitiveness of Israeli products abroad. The relatively low standard of know-how among numerous manufacturers, especially as far as penetrating new markets was concerned, also hampered the expansion of exports. As a result, many manufacturers preferred to produce for the local market and exported only a small part of their production, if any. The existence of a large number of small firms whose production was based mainly on the domestic market and their physical incapability to sell abroad also impeded exports.

The Government's encouragement to exports consisted mainly in granting direct and indirect premiums to exports and exemptions from various taxes, as well as cheap credit for working capital and other remissions within the framework of the Law for the Encouragement of Investments.

Even though exports expanded at a remarkably fast rate during 1950—59 — about 25% per annum on the average — it must be remembered that in 1950 they totalled only $ 45 million. During 1960—64, on the other hand, the rate of expansion slowed down, in view of the decline in the relative profitability of exports. The decline continued during the whole period, in spite of the devaluation of February 1962. The influence of the change in the official exchange rate was inconsiderable, owing to the relatively small difference in the effective exchange rate (for more details see chapter on International Trade), and the rapid rise in prices in the local market immediately after devaluation.

One of the aims of the slow-down policy during 1965—67 was the diversion of productive factors from consumption to exports, but in spite of the fact that many productive factors became available, no noticeable rise in exports occurred during the period. In some of the export industries, profitability was not sufficiently increased. In those branches supported by the domestic market the drop in profitability on the domestic market was accompanied by a rise in the unit cost of production, and the producers preferred a drop in production to an increase in unprofitable exports.

5. NATIONAL INCOME AND FACTOR PAYMENTS

National income in 1967 totalled IL 9,679 million, representing a fivefold real increase over 1950 or an annual increase of about 11%.

a. Payments to Factors of Production

National Income is the payment to factors of production employed in producing the national product. Part of the productive factors employed in the economy are foreign. In 1966, factor payments to abroad amounted to IL 393 million (including IL 192 million interest payments by the public sector) as compared with IL 13 million in 1950. Payments to Israeli productive factors from abroad amounted to IL 200 million in 1966, as compared with IL 1 million in 1950.

TABLE 13. Distribution of Payments to Domestic Productive Factors*, Current Prices 1954—1966 (Percentages)

	1954—57	1958—61	1962—65	1966
National Income	100.0	100.0	100.0	100.0
Payments to labour	89.9	85.4	84.6	95.6
Of this: wages**	(61.9)	(59.5)	(62.7)	(69.9)
Returns to capital	10.1	14.6	15.4	4.4

* Excluding housing and income of the public sector from property.

** Percentage of total payments and not of payments to labor.

Source: Report of the Committee on the Distribution of the National Income in Israel.

The share of wages to employers remained more or less constant most of the time and did not undergo any drastic change. But in 1966, the share of wages in national income rose, following the steep increase in wage-rates in the public sector and the payment of retroactive differentials.

The share of returns to capital rose somewhat towards the end of the 1950s and reached a peak during 1962—65. But in 1966, as a result of the recession and large wage increases in the public sector, the share of returns to capital fell sharply. In 1967 there was apparently a rise in the return on capital and its share in the total national income, while wage rates were stable and the number of wage-earners fell.

b. Private Sector Income[8]

Private income consists of income originating in the sector's economic activity — wages, profits and dividends — and in transfer payments from the public sector and from abroad. Total disposable private income from all sources amounted to IL 9,554 million in 1967.

Disposable private income from domestic sources rose at a slower rate than national income. During 1950—1966 private income from domestic sources rose on the average by 9.5% per annum, as compared with a general rise of 11% per annum in national income.

From this, there was a rise in the share of taxes and other compulsory payments of the private sector to the Government. In other words, in spite of the increase in net transfer payments from the public to the private sector, there was an even greater increase in compulsory payments[9] from the private to the public sector. This increase arose from the increase in real private income (in view of the progressiveness of the tax system), the increase in effective tax rates and the expansion of Government needs, particularly in the field of defence.

Transfers from the public to the private sector including welfare, national insurance, and transfer to educational and health institutions, rose faster than the growth in income for economic activity and transfer from abroad.

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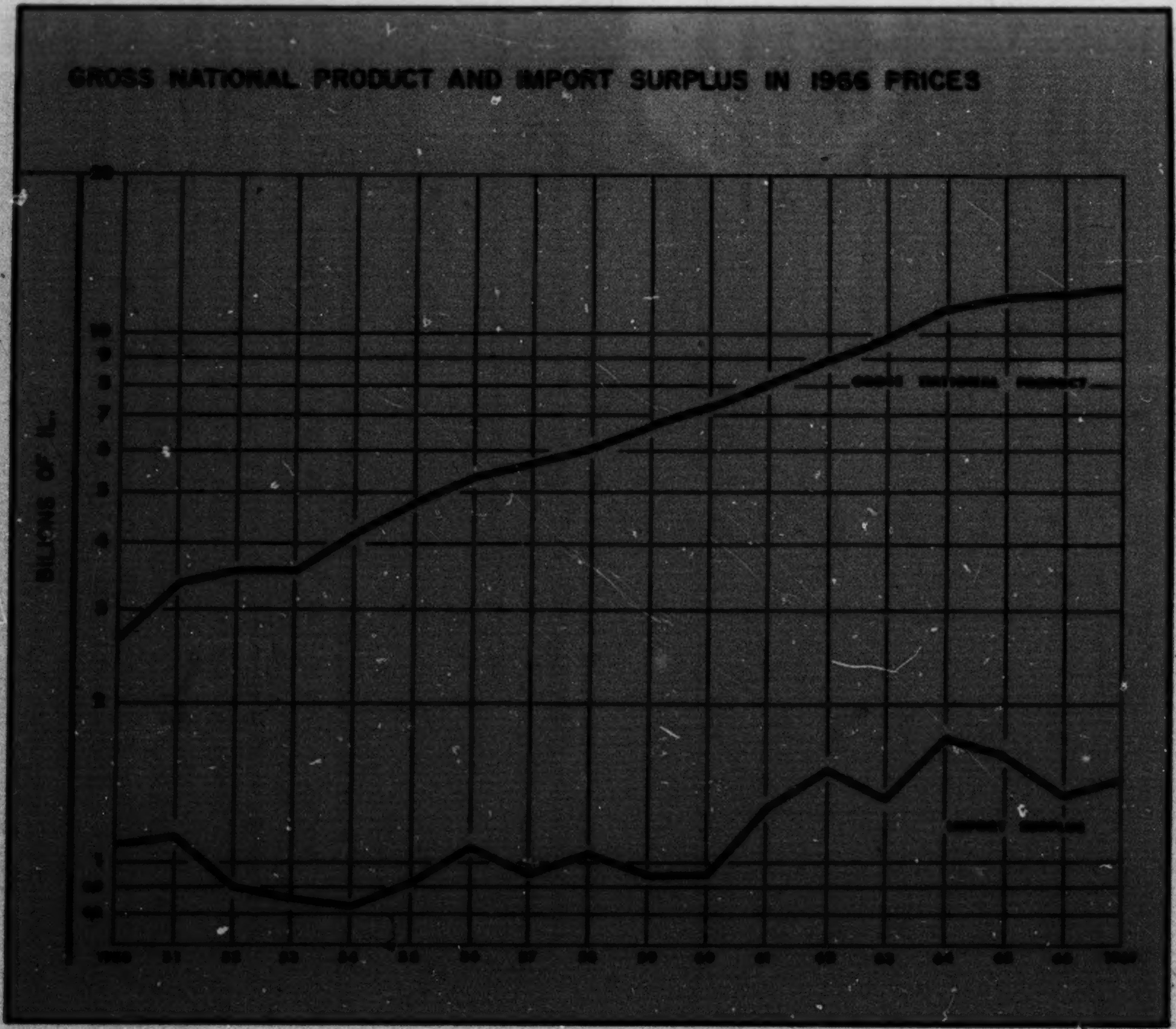
[8] Private sector includes households, businesses and non-profit institutions.

[9] Include income taxes and National Insurance contributions.



GROSS NATIONAL PRODUCT AND IMPORT SURPLUS IN 1966 PRICES

From 1955 onwards, except for 1959, disposable private income from all sources was higher than that originating in economic activity, owing to transfer payments from abroad. This meant that the public possessed during the entire period a purchasing power which exceeded the economic return it earned. This fact, together with the low level of savings, caused the inflationary pressure in the Israeli economy during the period under survey.

TABLE 14. Annual Averages of Private Income, by Sources, 1955—67 (Percentages)

	1955—59	1960—64	1965—67
Total disposable private income from domestic sources (IL million)	2,247	4,833	8,286
Total disposable private income from domestic sources	100.0	100.0	100.0
Income from economic activity	108.0	106.8	107.5
Direct taxes	— 12.3	— 13.8	— 16.7
Net transfer payments from public sources	4.3	7.0	9.2
Transfers from abroad	11.0	12.7	9.2
Total disposable private income from all sources	111.0	112.7	109.2

Source: Central Bureau of Statistics

Table 14 shows that transfers from abroad increased disposable private income by over 10% during 1955—64 and 9% in recent years. Obviously, this current income, which is not a return for domestic economic activity, increased private consumption.

6. PRIVATE CONSUMPTION

Total private consumption expenditure amounted to IL 8,100 million in 1967 which represents about IL 3,000 per capita. During the period surveyed, private consumption increased fivefold, and per capita private consumption increased by 3% annually. 1950—1954 saw a drop to mass immigration whereas during the years 1955—64, the annual per capita increase was 5.3%.

The rise in the purchasing power of the growing population, on top of the protection given to local production, encouraged investments aimed at satisfying local private consumption. Since the relative ease with which products could be sold on the domestic market hindered the rise in exports, the economy paid for the rise in private consumption by foregoing the possibility of allocating investments to the production of export commodities, and thus liberating the economy from its dependence on capital imports.

The main factor in the rise of private consumption was, naturally, the substantial increase in the disposable income of households. In addition to the above factors leading to a rise in incomes — the flow of income from economic activity, transfer payments from the public sector and abroad (which constituted an important component in the current income of many households and exerted pressure towards increasing private consumption) — there were, no doubt, other factors which led to a rise in private consumption: the composition of the population, its youth, and the short time that a considerable portion of it — which had arrived penniless — had been in the country. These factors encouraged many households to consume a substantial part of their current income, which leaves a low rate for saving.

TABLE 15. Private Consumption Per Capita and Its Rate of Increase in Various Countries 1955 — 1965

	Private consumption per capita in 1965	Average annual increase in per capita private consumption, 1955 — 1966**
	Dollars*	Percentages
U.S.A.	2226	1.9
Canada	1522	2.1
Sweden	1448	2.9
Switzerland	1351	2.3
Denmark	1319	3.7
France	1226	3.5
England	1172	2.0
Belgium	1130	2.6
West Germany	1121	4.3
Norway	1037	2.7
Israel	935	4.9
Holland	898	3.6
Austria	775	4.5
Ireland	697	3.3
Italy	690	4.8
Venezuela	561	3.6
Greece	487	6.0
Japan	481	6.4
Portugal	303	3.2

* Official exchange rates.

** Switzerland, Ireland and Greece — 1958 — 66; Venezuela — 1960 — 64.

Sources: National Statistics Accounts, 1955 — 64; International Financial Statistics, 1965 — 66.

It can be concluded from Table 15 that the average level of private consumption expenditure in Israel is similar to that of developed countries such as Norway and Holland, and exceeds that of Italy and South American countries. The rate of increase in per capita private consumption was also very rapid in comparison with various West European economies, such as Austria, West Germany and Italy, and slightly lower than that of Greece and Japan.

a. Composition of Private Consumption

The rapid increase in private consumption was accompanied by a change in its composition.

TABLE 16. Composition of Private Consumption at Various Periods, 1950 - 1967

	1952-54	1955-59	1960-64	1965-67
Total private consumption	100.0	100.0	100.0	100.0
Food, beverages, tobacco	40.2	38.1	34.4	30.5
Clothing, footwear and personal effects	10.5	11.5	9.6	9.1
Household maintenance	5.7	5.5	5.9	5.2
Housing	9.7	11.5	13.0	14.7
Furniture and household equipment	6.9	6.3	7.6	7.5
Personal services and miscellaneous	29.0	27.1	29.5	33.0

Source: Central Bureau of Statistics

As can be seen from Table 16, the share of food in total private consumption dropped from 40% to 30%, and the share of various services, housing, furniture and household equipment rose. This is a phenomenon which ussually accompanies a rise in the standard of living. Table 17 contains various indicators which point to the rise in the standard of living in Israel.

TABLE 17. Indicators of the Rise in the Standard of Living, 1950—1966

	Percentage of families owning				Population per private car	Gross capital per capita in dwelling IL of 1966
	Radio	Gas Cooker	Electric refrigerator	Washing machine		
1950	—	—	2.4	—	—	1,335
1951	—	—	6.3	—	156	1,450
1952	—	—	10.1	—	151	1,695
1953	46.9	—	12.4	—	138	1,894
1954	51.5	—	16.4	—	131	2,038
1955	54.7	14.6	19.5	—	124	2,202
1956	58.8	19.1	23.5	—	116	2,383
1957	63.1	24.4	28.3	6.9	110	2,448
1958	72.0	35.0	34.0	9.1	—	2,611
1959	76.2	47.5	40.6	12.2	101	2,769
1960	78.7	59.3	46.8	15.8	88	2,953
1961	79.6	62.3	50.2	16.3	74	3,086
1962	86.8	73.0	58.8	19.2	61	3,246
1963	88.4	79.4	64.3	23.4	51	3,464
1964	89.3	84.5	70.8	23.6	41	3,654
1965	89.9	85.5	77.6	28.5	32	3,882
1966	90.9	83.1	80.1	29.5	29	4,143

Source: Bank of Israel, Central Bureau of Statistics.
Data on motor-cars, telephones and housing: estimates of Economic Planning Authority.

Table 17 clearly indicates that the standard of living of families in Israel has risen. Thus, for example, over 90% of households owned a radio in 1966, i.e., double the proportion in 1953. In 1964, about 70% of households owned electric refrigerators, as compared with 2.4% in 1950, i.e., 28 times as high proportionally. The relation of motor car to population increased about fourfold. The number of private cars has risen mainly since 1960, and further rapid development is to be expected in this field, as it is in the same category as other durable consumption goods, such as tape-recorders, television sets, automatic dish-washers, etc.

The changes in private consumption are highly evident when per capita consumption is examined. Table 18 reveals that striking increases took place in the consumption of miscellaneous services, housing, personal services, recreation and entertainment, furniture and household equipment.

TABLE 18. Composition of Per Capita Private Consumption, 1952 and 1966

	Per Capita private consumption (IL of 1966)		Index of real consumption 1952 = 100
	1952	1966	1966
Total domestic private consumption expenditure	1,555	3,086	195.7
Food, beverages and tobacco	591	936	158.4
Clothing, footwear and personal effects	89	281	317.0
Housing	220	448	203.7
Household,fuel, light, ice	27	53	200.4
Furniture and household equipment	70	218	312.5
Household maintenance	64	108	167.9
Personal care and health	116	219	189.4
Transportation and communication	114	238	208.9
Recreation and entertainment	99	267	270.7
Miscellaneous services	169	318	188.3

Source: Central Bureau of Statistics

Various surveys indicate differences in consumption patterns among different sectors of the population. Part of these can be explained by different income levels, settlers from Europe and America having higher incomes. But even discounting the income factor, the differences in consumption patterns, for example in the composition of food, continues to be conspicuous. People originating from Europe and America prefer various proteins, whereas those originating from Asia and Africa prefer food rich in carbohydrates, and the former usually spend more than the latter on health and educational services. But the surveys also demonstrate that with the reduction of the gap in incomes between the settlers from the various continents, following a rise in the duration of their residence in the country, differences in patterns of consumption become smaller.

The Government influenced the composition of private consumption by means of a system of subsidies and indirect taxes which changed the relative prices of the various goods. The subsidy system cheapened goods and services for mass consumption, such as bread, milk and dairy products, meat, public transport, and health services. Relatively high rates of tax are imposed on "luxury" goods such as tobacco, alcoholic drinks, furniture and household equipment, and recreation ad entertainment.

As a result of changes in the order of purchase of various goods and the failure of the tax system to keep pace with changes in consumer demand, high rates of tax are levied on many goods consumed by some households such as telephones, motor-cars and household equipment.

b. Consumption of Non-profit Institutions

The non-profit institutions provide households with various services in health, education, welfare and religion as well as in such fields of social life as party and vocational organization, on a non-profit basis — generally without direct monetary payment or for a price below cost. The services supplied by this sector resemble those of the public sector, but are on a voluntary basis and most of its income comes from transfers from other sectors — mainly households, but also from the public sector and from abroad. The services given by the sector are provided for households only. In spite of the large number of institutions (over 5,000), most of the sector's economic activity is concentrated in a small number of large institutions, such as the Histadrut's Medical Insurance Fund, institutions of higher learning, the Executive Council of the General Federation of Labor (the Histadrut), Hadassah and the like. Legally, most of the institutions are organized in the form of "Ottoman associations" (societies registered under a law enacted in Ottoman times), and others as cooperative societies and limited companies.

Total consumption of non-profit institutions amounted to IL 903 million in 1967, as compared with about IL 26 million in 1950 (at current prices); during most of 1960—64 it represented about 9% of total private consumption, rising in 1965—67 to about 10%.

Approximately 40% of the total expenditure of non-profit institutions were spent on health. In Israel, most households belong to voluntary health institutions such as the Medical Insurance Fund of the Histadrut and similar, smaller, funds. Some of these institutions control hospitals and pharmacies and all of them own clinics. Household payments to these institutions vary according to family income and size.

Educational non-profit institutions spent about 14% of the total expenditure of the sector in the early 1950s, and as much as one-third in recent years. Most of the expenditure in this branch is on institutions of higher learning, such as the Jerusalem, Tel Aviv and Bar-Ilan Universities, and the Haifa Technion.

The increase in the share of expenditure on education and health arose from the increase in the population and the improvement in the quality of the services.

TABLE 19. Composition of the Expenditure of Non-Profit Institutions on Consumption, at Current Prices, 1950 — 1967 (Percentages)

	1950 — 54	1955 — 59	1960 — 64	1965 — 67
Total	100.0	100.0	100.0	100.0
Health	35.1	35.8	40.8	38.1
Education and culture	16.4	22.9	28.0	33.1
Welfare and religion	31.9	23.4	15.8	28.8
Professional and political organizations	26.6	17.9	15.4	

Source: Central Bureau of Statistics

7. PUBLIC CONSUMPTION

Public consumption amounted to IL 3,554 million in 1967, 4.7 times as much as in 1950.

The share of public consumption in total resources has remained at a constant level of 18%, except for the years 1956, 1966 and 1967, when it rose to about 21%. In 1956 this was due to the Sinai Campaign, in 1967 to the Six-day War and in 1966 to substantial wage increases.

TABLE 20. Share of Public Consumption in Resources and in Private Consumption in Various Countries, Average 1955 — 1964

	Defence burden as percentage of resources	Civilian public consumption as percentage of resources	Total public consumption as percentage of resources	Public consumption as percentage of private consumption
U.S.A.	9.4	8.6	18	29
Israel	10.0	8.0	18	31
Sweden	4.7	13.3	18	30
England	6.5	9.5	16	25
Canada	5.2	9.8	15	23
Italy	—	—	15	24
West Germany	3.6	10.4	14	24
Norway	3.3	10.7	14	25
France	5.5	8.5	14	21
Denmark	2.8	11.2	14	21
Austria	1.2	11.8	13	22
Belguim	3.2	8.8	12	18
Portugal	5.7	6.3	12	17
Ireland	—	—	12*	16
Switzerland	—	—	11	18
Greece	—	—	11	16
Japan	—	—	10	18

* 1958 — 64
— No data available

Source: National Statistics Accounts, 1955 — 64.

The relatively large proportion of public consumption in total national expenditure, as compared with larger countries with international obligations (see Table 20) is due to Israel's heavy defence burden which rise in the last years, more than 12 % of all resources. In Israel, too, there are "national institutions" (the Jewish Agency, etc.), which, in addition to their tasks in Israel, constitute the center of activity of the Zionist Movement and its branches abroad, and whose expenditures in Israel are classified as part of the domestic public consumption.

a. Composition of public consumption

Civilian expenditure represented almost half the total public consumption throughout the entire period, except for 1967, when Defence expenditure increased.

Administrative expenditure — including the administrative Government offices, the courts, local authorities and the national institutions — represented about one quarter of total civilian public consumption expenditure.

Some 25% each of total non-military expenditure were used on health and education. Educational expenditure for public consumption includes elementary, a part of secondary, vocational and agricultural education, supervision of secondary education, adult education, etc. In public consumption are not included grants to non-profit educational institutions such as universities and various private vocational and secondary schools are defined as transfers. Health expenditure included in public consumption are direct expenditure on the maintenance of health innstitutions. Here, too, grants to non-profit health institutions are excluded.

About 75 % of total consumption expenditure by the public sector can be defined as central Government consumption, which amounted to IL 1,700 million in 1966.

Consumption expenditure of local authorities reached about 15 % of total public consumption during the period and amounted to IL 350 million in 1966, the bulk of which was on education, health, sanitation and welfare services. Part of this expenditure did not come from their own resources but was transferred from the Government.

About 10% of total public consumption (IL 100 million in 1966) was that of the national institutions, whose main function are: the organization and absorption of immigrants, guidance to new settlers, the dissemination of Jewish culture in the Diaspora, and provision of services to the Zionist Movement abroad. For these purposes, a staff is maintained to handle immigrants from the moment of their arrival and assist their integration, while instructors deal with the new settlements in a variety of fields such as agriculture, home economics and culture.

b. Defence expenditure

As has already been stated, defence expenditure accounted for about 50% of public consumption and about 11 % of resources during 1950—66. In recent years, the defence expenditure increased, and accounted for more than 12% of resources.

. It should be borne in mind that there is a considerable inexactitude in the measurement of defence consumption, as part of it is calculated according to the actual expenditure on maintaining soldiers on compulsory service and reserve duty. Their pay scales are extremely low and do not reflect the real cost to the economy. Defence consumption includes all investments in the year they are made, in contrast to the practice in other sectors of the economy. Table 20 contains an international comparison which shows that defence expenditure in Israel is high considering the size of the country, and that the burden is similar in weight to that borne by large States with international obligations. Its weight has constantly increased during the period under review and represents a considerable burden on the economy.

8. GROSS DOMESTIC CAPITAL FORMATION

During the greater part of the State's existence, the Israeli economy maintained a high level of investment: about one-quarter of the total resources at its disposal. That this is a high level in comparison with various other countries is shown in Chapter 3.

a. Expansion of investments and its influence on employment

The relatively high level of investment enjoyed by Israel was one of the main factors contributing to its rapid economic growth. A number of factors explain the high ratio of investment to total resources.

The rapid increase in population and restrictions on imports created a constantly expanding domestic market, which was also protected against imports. This gave an impetus to investments in the various branches of the economy. The prime need to construct dwellings for thousands of new immigrants created a large demand for housing. The supply of the growing population other needs — from food production to educational, health and recreational services — constituted a suitable background for extensive investment. The rate of growth, which was accompanied by a rapid rise in prices during the period, encouraged the expansion of investments and assured the various entrepreneurs of profitability. The Government was both the main initiator and the executor of many investment programs, in addition to extending assistance and guidance to the programs of private entrepreneurs by means of cheap credit, protection against competitive imports, selective import licences, and the law for the Encouragement of Investments.

Though the level of investment, as a percent of total resources, was relatively stable during 1950—64, annual changes occurred from time to time which influenced employment, imports and prices.

The main domestic productive factor employed in investments is, of course, manpower employed in construction for industry and housing. Changes in the level of investment are thus liable to influence, first and foremost, employment in building activities. The sudden expansion of this industry can produce a surplus demand for workers, whereas a contraction of investment reduces the demand for workers. Apart from the influence of the level of investment on employment, the latter is also considerably affected by the composition of investment. The influence of investment involving a large component of imported equipment on the level of economic activity in Israel is different from that of investment in construction, which, as has been stated, employs more domestic productive factors.

In 1965 — 67, there was a steep decline in investment, which amounted to only IL 1,910 million in 1967 as compared with over IL 3,000 million in 1964. A number of factors contributed to this sharp fall: first of all, Government policy, which at the time aimed at reducing Government investment; secondly, the limitation of relatively low interest credit from public credit; and, thirdly, the raising of indirect taxes and the reduction in the purchasing power of the public. An additional factor which aggravated the developments of the period was the fall in immigration, as compared to the early 1960s, the main effect of which was on construction. The other factors (the tax rise, the reduction of the public's purchasing power and the rise in the price of credit) caused, inter alia, a substantial fall in the profitability of many branches, and, consequently, a contraction of private investment. The recession in building worsened the unemployment in the branch and affected a number of industrial sub-branches producing inputs for construction. Thus, the contraction of Government and private investment at the same time led to the sharp decline in capital formation during 1965—67.

b. Finance and destination of gross investment

There are two sources of finance for investment: capital imports and domestic savings. The share of domestic savings[10] in the financing of investments rose from 25% in 1950—54 to 38% in 1955—59 and approximately 45% between 1960 and 1966. Hence it appears that there was a continuous rise in the share of domestic savings in the financing of investment. This share declined only in years of war: in 1956, the year of the Sinai Campaign, domestic savings accounted for only 11% of investment; and in 1967 for only about 25%.

1950—54 stands out in Table 21 owing to both the high proportion (relative to later years) of investment in construction and the relatively low proportion of investment in other branches of the economy. The large share of construction arose mainly from the absorption needs of tens of thousands of immigrants. Investment in agriculture, which continued at a high level until the end of the 1950s, arose mainly from the need to produce food for the growing population. Over 500 settlements were established within quite a short period, the cultivated area was doubled, and the area under irrigation expanded.

From the mid-1950s, the process of industrialization was intensified, though the share of investments in transport, communications and public buildings continued to grow at the same time as it did during the whole of the period surveyed. Alongside the considerable expansion of these branches of the economy, there was a slowdown in the expansion of investment in housing as a result of the decrease in immigration, which was partly offset in later years by expenditure by the public on the improvement of housing standards.

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[10] Domestic Saving is defined in the Statistical Abstract of Israel, No. 18 (which is also the source of the data in this chapter) as: gross investment less import surplus, at current prices.

TABLE 21. Composition of Investment, by Periods, 1954—1966
(Percentages)

	1950—54	1955—59	1960—64	1965—67
Total gross investment*	100.0	100.0	100.0	100.0
Dwellings	36.9	31.9	30.4	30.3
Investment in other branches of the economy	56.9	62.7	63.8	67.3
Of this: Agriculture and irrigation	19.3	17.7	10.9	8.6
Industry and mining	15.0	14.9	17.3	14.5
Electricity	3.2	5.5	2.8	3.9
Transportation and communication	9.3	11.7	16.0	19.4
Business premises and catering establishments	2.8	2.1	3.4	3.6
Public buildings	7.3	10.8	13.4	17.3
Change in inventories	6.2	5.4	5.8	2.4

* Each classification is by purpose, thus public roads are included in transportation and communication, whereas non-Government hospitals are included in public buildings.

Sources: 1950—59: Dr. A.L. Gaathon
1960—66: Central Bureau of Statistics

In the years of economic prosperity — 1960—1964 — total investment grew more rapidly. The boom was felt in all branches but was particularly prominent in construction. Furthermore, a number of large projects — such as the completion of the Jordan-Negev Water Carrier, the construction of Ashdod Port, and the expansion of the Dead Sea Potash Works, the road network and the productive capacity of the Electric Company — were executed in the same years. Investments increased in hotels and other catering establishments in public buildings, and also, following the rise in incomes and the wave of immigration at the beginning of the 1960s, in housing.

In 1965, investment in housing reached a peak of IL 975 million (at 1966 prices). The policy of moderation in economic activity during 1965—67, which left its mark on construction from the middle of 1965 and on other investments during 1966, was one of the principal factors in the sharp decline in the general level of investment.

C. THE FUTURE

1. Projected Economic Growth

National resources in real terms are expected to increase by IL 4,800 million, or 36 % over the 1967 figure, to a total of IL 18,365 by 1971. This will come about as a result of rapid growth in Gross National Product, which is estimated at IL 17,180 million in 1971 as against IL 12,109 in 1967, an increment of IL 5,070 million or 42 %. This increase of over 9 % annually in the national product will be considerably above the average annual increase in 1965—67 and only just slightly less than the increase during each of the years 1955—64. This growth will be made possible by the projected growth in employment and capital stock, and the improved utilization of the available production factors.

TABLE 22. Growth of the Israel Economy 1967—1978*
(IL millions in 1966 prices)

	1967	1971	1968—71 sources	Annual growth rates 1967—71	Distribution of added GNP 1968—71
A. Total sources (1+4)	13,564	18,365	4,801	7.9	
Gross National Product	12,109	17,180	5,071	9.2	100.0
Imports	4,050	5,760	1,710	9.2	—
Exports	2,595	4,575	1,980	16.2	—
Import surplus (2—3)	1,455	1,185	-270	—5.0	-5.3
B. Total uses	13,465	18,365	4,801	7.9	94.7
Private consumption	8,100	10,680	2,580	7.2	50.9
Public consumption	3,554	4,120	566	3.8	11.2
Gross investment	1,910	3,565	1,655	16.9	32.6

* All data are in 1966 prices; an exchange rate of IL 3 = $1 must therefore be taken into account.

Source: 1967 estimates of the Central Bureau of Statistics.

During the four-year period of the development plan, the population is expected to grow by about 338,000, to over 3 million by 1971. About 70 % of the population increment will be due to natural increase and the rest to immigration. The adult population aged 14 years and more will grow at the same rate as the rest of the population, so that there will be some 2.1 million people of working age by 1971, as against 1.8 million in 1966, of whom 51 %, or about 1,075,000, will belong to the labor force.

Employment will reach 1,032,000 — 200,000 more than in 1967 — so that only 4 % of the civilian labor force will remain unemployed as against about 10 % in 1967. Output per gainfully employed person will be IL 17,000 as against IL 14,600 in 1967 (both at 1966 prices) — an increase of 14 %, mainly due to the better training of the labor force, improved equipment and greater rationalization of production.

TABLE 23. National Product Growth Factors

	1971 (1967 = 100)	Average annual increase 1968–1971 (per cent)
Employment	124.2	5.6
Capital stock	129.1	6.6
Capital per gainfully employed person	104.0	1.0
Total inputs*	125.2	5.8
Gross product	141.9	9.2
Product per gainfully employed person	114.3	3.4
Efficiency of production	113.3	3.2

* At a labor : capital ratio of 1 : 4.

2. National and Private Income

The national income is expected to total IL 13,250 million in 1971, compared with IL 9,679 million in 1967 and IL 9,347 million in 1966 — a 43 % increase over 1967 or about 9 % annually — a somewhat lower rate than in 1955—64.

TABLE 24. National and Private Income, 1966—71

	1966	1971	Rate of increase	
			1966—71 (1967 = 100)	1966—71 Annual rate
Gross National Product	11,943	17,180	143.8	7.5
Less: Depreciation	1,144	1,800	157.3	9.5
Net national product	10,799	15,380	142.4	7.3
Less net indirect taxes	1,451	2,130	146.8	8.0
National income	9,348	13,250	141.7	7.2
Less public sector income from property	283	400	141.3	7.1
Plus net transfers from public to private sector	659	950	141.2	7.1
Less direct taxes*	1,480	2,600	175.7	11.9
Disposable private income from internal sources	8,279	11,080	134.0	6.0
Transfers from abroad	725	900	124.1	4.4
Disposable private income from all sources	9,005	11,980	132.8	5.8

* The taxes required for the implementation of the development plan in 1971 — see chapters on Savings and Fiscal Policies.

The disposable private income from internal sources will thus be IL 11,090 million, compared with IL 8,279 million in 1966 — an average annual increase of 6%. Disposable private income from all sources will amount to IL 11,960 million as against IL 9,000 million in 1966 — an overall growth of 33% in five years.

3. Consumption

Per capita total consumption is expected to increase by about 3% a year to a total of IL 4,788 by 1971 as against IL 4,293 in 1967. Total consumption will be IL 14,800 million, compared with IL 11,654 million in 1967. Some 67% of the additional resources will thus go to consumption.

a) Private Consumption

By 1971 private consumption is expected to amount to IL 10,700 million, compared with IL 8,100 million in 1967 and IL 8,000 million in 1966, and per capita private consumption will be about IL 3,500 — some 16% more than in 1967 or an average of 4% more each year. With the rising standard of living, the composition of private consumption is expected to go on changing in the same direction as in the past, with a higher proportion spent on services and durable goods, such as radios, gas stoves or ovens, electric refrigerators and washing machines, and a smaller proportion spent on food. When general television starts, the number of television sets is also expected to increase, although it is difficult to forecast the effect of this innovation on the purchasing priorities for durable goods. Practically all households will have radios and gas stoves by 1971, and about 80% will have electric refrigerators. The number of private cars will rise by about 14% annually and the number of telephone subscribers will be doubled.

Housing conditions will improve with the implementation of various slum clearance and rehabilitation projects. Building standards and the level of services are likewise expected to rise: homes will become more spacious and better equipped. The per capita housing capital stock will thus be IL 4,800 by 1971 as against IL 4,300 in 1967 — an increase of 12%.

b) Public Consumption

Public consumption will amount to IL 4,120 million by 1971 as against IL 3,554 million in 1967 — an increase of IL 566 million in four years, considerably slower than in 1955—67. The estimate is based on a projected expansion and rationalization of services and a slight rise in defense expenditures, which reached a very high level in 1967. The political and security situation will make it necessary to continue pumping a considerable portion of the national resources into the defense system. The implications of the Six-Day War and the more costly and sophisticated equipment required may cause an increase in these expenditures, which will continue to be a heavy burden on the economy.

TABLE 25. Estimated Composition of Private Consumption, per capita

	1966 (IL)	1971 (IL)	Increase 1966–71 (IL)	Rate of increase 1966–71 (per cent)	Percentage composition 1971
Food	818	908	90	11	25.7
Beverages	62	71	9	14	2.0
Tobacco	56	60	4	7	1.7
Footwear and clothing	281	323	42	15	9.1
Housing	448	517	69	15	14.7
Household fuel	53	60	7	13	1.7
Furniture and household equipment	218	272	54	25	7.7
Household maintenance	108	122	14	13	3.5
Personal care and health	219	241	22	10	6.8
Communications and transport	238	288	50	21	8.2
Entertainment	267	305	38	14	8.7
Miscellaneous services and others	318	261	43	14	10.2
Total	3,086	3,528	442	14	100.0

Domestic civilian public consumption is expected to grow by about 20% per annum, as a result of the projected improvement in social services. In this context it must be borne in mind that many of the social services are supplied by non-profit institutions that receive much of their income through Government transfers, which are not included in public consumption.

c) Social Services

Thanks to the projected rationalization of social services, the standard is expected to rise faster than public consumption expenditure. With the increase in the pupil population, the national expenditure on elementary, post-primary and higher education is expected to increase. The intended expansion of the post-primary vocational training program will also require additional schools, teachers and equipment. It is further intended to improve the existing facilities in the schools and provide them with additional equipment, laboratories, teaching media, etc. At the same time, efforts will be made to raise the standard of qualifications of elementary school teachers. The projected improvement in educational services in the development areas will also increase the national expenditure. If the recommendations of the Parliamentary Committee to provide compulsory schooling for 9 instead of 8 years (in addition to one year's compulsory kindergarten) are accepted, the national expenditure on this score will be greater still.

Health services will have to be expanded because of the projected growth of the older and younger age-groups (see chapters on Population and Health). At the same time the standard of health services will be raised by setting up new hospitals and expanding some of the existing ones.

4. Investments

The gross domestic investment required to implement the development plan will be IL 3,565 by 1971, IL 1,655 million more than in 1967 when the gross domestic investment stood at IL 1,910 million. This means an annual rate of growth of 17% from 1968 to 1971. During these four years the total investment will be IL 12,000 million (at 1966 prices) — about IL 2,800 million in housing, and IL 9,200 million in the other branches of the economy. This level of investment and its projected distribution should be enough to ensure the necessary production capacity for achieving the targets of the plan and assuring the continued growth of the economy. In spite of the projected annual increase in the investment level, investments will constitute only about 19% of the total resources and about 21% of the Gross National Product in 1971. During the 70's the percentage should rise to about a quarter of the Gross National Product.

The total capital stock by the end of 1971 is estimated at IL 42,000 million compared with IL 33,000 million (at 1966 prices) at the beginning of the period. The productive capital stock will constitute about 65% of the total and will amount to about IL 27,500 million. It is expected to grow by IL 7,100 million, accounting for approximately 72% of the incremental capital stock. The capital stock per gainfully employed person is expected to go up 4% annually to IL 25,000 approximately as against IL 23,200 in 1967.

The achievement of all the targets for savings, consumption and exports will not bring optimum and sound development without the levels and types of investment, management and marketing capabilities on a broad front which will ensure that Israel can compete effectively in international markets. Much must be done within Israel to foster competition, reward efficiency, encourage local investment, stimulate greater productivity and follow other roads to rapid development, but Israel needs and will continue to need foreign entrepreneurial and marketing assistance, which is best obtained when associated with foreign investment. High priority will be given to attracting those foreign investors who will bring to Israel the managerial capabilities in both production and marketing that will result in the rate of expansion of exports which she so greatly needs.

5. Gross National Saving

To attain the objectives of the plan gross national saving must reach IL 2,380 million by 1971. In 1966 gross national saving was only IL 1,166 million, and in 1967 IL 455 million. About 67% of the gross investment will have to be financed out of local savings, as against 46% during the 60's. Hence saving must constitute 14% of the Gross National Product by 1971, instead of a mere 10% in 1966, so that about 24% of the incremental national

product will have to be saved. This calls for a considerable effort on the part of the private sector, which will have to reduce its rate of increase in consumption and raise its savings rate. The public sector must also contribute to the restraint on the rise in consumption. It is assumed that the private sector will be able to attain a savings rate of 18% instead of the present 16%, to reach a total of IL 2,345 million of savings by 1971. The Government will use all possible means to encourage this trend.

Even so, the public sector will have to generate a positive saving of about IL 35 million, compared with its negative saving of IL 329 million in 1966. To offset the negative saving of the national institutions, the Government will thus have to save about IL 300 million by 1971 through the creation of a budget surplus. Its tax policy must be drawn up accordingly. The estimated current public sector receipts from the present taxes fall below this target at the projected expenditure level. The Government will therefore have to increase its domestic receipts.

6. Foreign Trade and Capital Imports

Until 1971 exports are expected to grow by 15% annually to a total of $ 1,525 million as against $ 865 million in 1967. Of the additional $ 660 million, $ 380 million are expected to come from commodity exports, which are expected to grow at an annual rate of 15% to $ 895 million in 1971 as against $ 515 million in 1967. A similar rate of increase is foreseen for the export of services. Industry is expected to provide about 90% of the additional commodity exports.

Imports will amount to $ 1,920 million by 1971, as against $ 1,350 million in 1967 — an increase of $ 630 million at an annual rate of close to 9%. Imports are thus expected to grow at about the same rate as the Gross National Product, so that the ratio will remain constant at about 33.5%.

Commodity imports are, however, expected to increase more rapidly, at the rate of 15% annually, to a total of $ 1,130 million by 1971 as against $ 655 million in 1967. Most of this $ 475 million, or 72%, increase will be due to much higher imports of investment goods. The import of consumption goods is also expected to go up — by about 15% annually, or 75% during the entire period.

On the other hand, the import of services will grow less rapidly than before, at the rate of 5% annually, or by 20% over the four years under review. This will be due mainly to the fact that Government capital service payments are not expected to increase, since the external debt balance is not scheduled to rise.

The Gross National Product in 1971 will be about 40% greater than in 1967, and exports will be about 27% of GNP instead of 21% as in 1967. The average proportion of imports will remain about the same. This is to be achieved by greater specialization in domestic production.

Capital imports are expected to remain constant. Net capital imports during 1968—71 are expected to be $ 2,300 million, unilateral transfers constituting about 70% of the total as against 60% in 1962—66. They will go up as a result of higher restitution payments from Germany and increased financial transfers by various institutions.

Capital imports in the form of loans are estimated at $ 1,000 million gross, including $ 540 million from the Independence and Development

Loans. The projected capital imports will make it possible to finance the import surplus and the repayment of debts. During 1968—71 some $ 675 million worth of debts will fall due. The ratio between Israel's foreign currency balances and imports will remain the same as in 1967.

TABLE 26. Indicators of Economic Independence

	1966	1967	1971
Import surplus as percentage of Gross National Product	11.3	12.0	6.9
Exports as percentage of imports	65.6	64.1	79.4

7. Development Trends by Branch of the Economy

The implementation of the development plan requires a revision of the entire structure of employment, investment, national product and exports. The transformation will have to continue far beyond 1971. Throughout the 70's and 80's there will be a constant need to promote the development of those export industries that pay the highest returns. During the four years of the present plan, industry, transport and communications will account for an increasing share of the Gross National Product and employment; the share of agriculture will decrease, while the share of services will go up only slightly, although the share of public health and educational services will increase.

Manufacturing and Mining

Industrial output in 1971 is expected to amount to IL 10,400 (at 1966 prices), as against IL 6,600 million in 1967 — an annual increase of close to 12%. Since the share of industries with a high ratio of added value is expected to increase most, the industrial component of the Gross National Product will rise faster than the growth of industrial output. Industry will account for 26% of the Gross National Product in 1971 instead of 23% in 1967.

As stated, preference is given under the development plan to those industries which will export a considerable portion of their output and are able to compete on the international market. Special stress will also be laid on industries processing local raw materials, such as minerals and vegetables, as well as on science-based industries and those manufacturing non-standard products or products with a low transport component.

The increase in the industrial product is expected to lead to a change in the destination of the output, about 21% of which will be exported in 1971 as against only 16% in 1966. The composition of the output destined for the domestic market will also be different, with fewer private consumption goods or intermediate products. This will be the result of the changes foreseen in private consumption and planned changes in construction and agriculture. On the other hand, more of the industrial output will be channelled to public consumption and investment.

Industrial exports are expected to amount to $ 725 million by 1971, as compared with $ 385 million in 1967 — an increase of $ 340 million. Thus industrial exports will grow at an annual rate of about 17%, and will constitute about 81% of total commodity exports in 1971, as against 74% in 1967. This rate of growth is the same as in 1962—66, though the composition of exports will be different. Diamond exports will increase at a lower rate — only 10% — while other industrial exports will grow at the rate of 21% annually. The share of diamonds, minerals and textiles in total industrial exports is expected to go down, while the metal, machinery, electrical and electronic appliance, transport equipment and chemical industries will contribute a higher proportion.

Considerable investment efforts will be required to attain these export targets; productivity will have to be stepped up, additional general services (such as organized marketing and research) provided, and the necessary manpower trained.

The projected increase in output and exports and the continued growth of industry after 1971 will call for investments of IL 2,550 million during 1968—1971 — about 27.5% of the total investment other than in housing. The industrial investment required in 1971 is estimated at IL 800 million. If the projected investments are carried out, the gross industrial capital stock will rise from IL 4,715 million at the beginning of 1968 to about IL 6,715 million by the end of 1971. Accordingly, the need for investments during the next few years, especially in new export industries, will be much greater than in 1966 and 1967, and the success of the plan largely depends on the attraction of investments at the level required.

By 1971 industry is expected to require about 276,000 workers as against about 221,000 in 1966 — i.e., 55,000 more. This means an increase of 24% — or about 36% of the total employment increment between 1966 and 1971. Most of this additional manpower will be needed by the more rapidly developing industries. The demand for technicians and engineers is expected to grow, though the largest increase will be in semi-skilled workers.

Agriculture

Agricultural output is estimated at IL 2,025 million in 1971 compared with IL 1,480 million in 1966 and IL 1,670 million in 1967. The output is thus expected to grow by 5% annually, less than the Gross National Product, in which the share of agriculture will accordingly be somewhat smaller.

This rate of growth is largely governed by the domestic market, which is expected to grow less rapidly than in the past. Mainly affected will be the output of the dairy and livestock industries and of fruits and vegetables The principal causes are the relatively moderate population increase and the expected change in consumption habits, with less being spent on food.

Agricultural exports will account for about a fifth of the output and are expected to increase by 60% to $ 170 million in 1971 (at 1966 prices). In citrus — the main export branch — the limit of development has almost been reached, practically all suitable areas — in point of soil and climate — having been planted. At the same time international prices are expected to fall. Nevertheless this branch will contribute about half the additional agricultural exports during the four-year period under review. The export of other products in which Israel has an advantage thanks to her climate, skill and scientific knowhow (such as winter vegetables, flowers, subtropical fruit and animal fertilization materials) will grow considerably as a result of special efforts in this direction. Their share in the total agricultural output will, however, continue to be modest.

Agriculture has only a limited potential for import substitution, as relatively high production costs will limit the local production of grains and fodder, sugar, oil seeds, meat and milk products, which are imported in large quantities.

For the projected increase in agricultural production, the capital stock will have to rise by 3% annually to IL 3,700 million approximately by the end of 1971, as against IL 3,100 million at the end of 1966. Most of the investments will be in family farms, especially those founded after 1948, to enable them to specialize and increase their output. Other investments will be used for the direct encouragement of agricultural exports (by, e.g., hothouses, plantations, packing and sorting sheds).

In addition to the amounts invested directly in agriculture, some IL 240 million will be invested in water works and water conservation, by the replacement of obsolete equipment and the introduction of new facilities.

Since labor productivity is expected to increase at the rate of about 5% annually, as in the past, no additional manpower will be required for the projected 1971 output.

Transport and Communications

The output of this branch is expected to grow at the rate of 10% a year to IL 2,300 million by 1971. The increase will be more marked in aviation and shipping than in inland transport and postal services. The increase in the output of aviation and shipping will be due to the projected increase in the activity of Israel's ships abroad, and an increase in number of tourists arriving by El Al.

The output of the postal and telecommunication services will keep pace with the expected population increase and the improvement in the standard of services. Instead of the present ratio of 11 telephones per 100 persons there will be 19 subscribers for every 100 persons by the end of 1971.

The product of the transportation industry is expected to continue growing more rapidly than the Gross National Product. Export of transportation services will grow by about 20% annually to $ 230 million by 1971, as against $ 110 million in 1967. This means that a higher proportion of the output will be exported.

The gross investment required during 1968 – 1971 is estimated at IL 2,900 million — about 30% of the total productive investment. Some IL 500 million will be required for the expansion of aviation and shipping. The bulk of the shipping investment will be for freighters — about half the additional investment being in oil tankers and tankers for the export of chemical products. The merchant navy is expected to grow by a million tons. The projected increase in output and population will also require various infrastructure investments. About IL 830 million will be invested in inland transport vehicles, including trains, and about IL 600 million in the expansion of the road network. Approximately IL 120 million will be spent on airports and harbors. The gross capital stock in transportation will thus amount to about IL 67,000 million by the end of 1971, constituting about 24% of the total capital stock.

By 1971 about 73,000 persons will be employed in the transport industry as against 58,000 in 1966. The projected rate of increase is somewhat higher than that of total employment. For the expanded navigation and aviation services a higher proportion of technicians and skilled laborers will be required.

Building

During 1968—71, about IL 7,000 million will be invested in housing and other buildings, housing accounting for 40% and building for the other branches of the economy for 60%. Investment in structures and land development in the building industry will grow at the rate of 12% annually, less than in 1962—64, but more than in 1966—67. Care will have to be taken to prevent regional and cyclical fluctuations in the development of this industry, in view of its considerable effect on the level of economic activity generally.

Immigrants' housing will be expanded in line with the immigration forecast: by 1971 some 7,000 immigrants' homes will be built. Slum clearance projects will be continued, as will the construction, repair and improvement of houses in various areas.

The industry will employ some 87,000 workers by 1971, compared with 76,000 in 1966. Despite this increase of 11,000, the share of the building industry in total employment will be somewhat smaller than in 1967, and considerably smaller than in 1964; it is estimated at 8.4% in 1971.

Electricity

Electricity output is expected to grow at the rate of 8% annually to 5,700 million kwh by 1971, when the system will have a capacity of 1,400 megawatts as against 1,000 megawatts in 1967. This will require an investment in fixed assets of about IL 450 million over a period of four years.

Personal, Business and Public Services

The expansion of personal, business and public services will be the result of three basic trends. First, the population increase and rising per capita income will increase the demand for personal and business services — internal tourism, health services, commerce and insurance. Secondly, improvements in the social services of the public sector will result in better health, education and welfare services provided for the public out of public funds. The implementation of various projects for the dispersal of the population will intensify these two trends. A third trend will be the increased export of tourist services, which will amount to $ 115 million by 1971, compared with $ 50 million in 1967 and $ 59 million in 1966.

For the attainment of these targets, an investment of IL 2,220 million is required during the four years 1968—1971. About IL 630 million will be spent on educational institutions, IL 345 million on health institutions, IL 200 million on the expansion of facilities, of which the building of new hotels and the expansion of existing ones will require an investment of IL 175 million. In addition, some IL 20 million will be spent on the development of historic sites.

Some 465,000 people will be employed in public, personal and business services by 1971, compared with 391,000 in 1966. Of these additional 74,000, some 19,000 will be employed in commerce, banking and insurance, where the total employment will be 133,000, while the remaining 55,000 will be employed in personal and public services, which will have a total of 322,000 employees.

D. PROJECTED DEVELOPMENT UNTIL 1978

In these days of accelerated technological change it is both increasingly necessary and increasingly precarious to plan far into the future. Israel is a country beset perhaps by more uncertainties than most nations. Yet, the very possibility of all kinds of unforeseeable developments requires that planning be of a long-range nature.

The details presented in this Plan for 1968—71 could, with far more time and effort than was available, have covered another year or two but hardly a full decade ahead without seriously bringing into question the value of the results relative to the inputs. Too many speculative assumptions and wide margins of error are involved to warrant detailed programs and policies by subject matter and sectors for the period through 1978. Therefore, only a framework of quantitative targets are presented.

On the other hand, it is feasible to set forth many of the directions and the broader patterns of the Israel economy over the coming decade. Even these more general perspectives are useful, because much time is involved in shaping ideas into proposals and translating proposals into policies, and even longer periods of time are required in developing the necessary institutions and measures and in bringing projects to successful completion. Thus, what is decided and done in the near future will have impacts well into the 1970's.

The estimates for 1978 were made on the basic assumption that Israel will have a population of close to 3.6 million — an increase of 530,000 over 1971. Including about 300,000 immigrants expected during the period 1968—78, the civilian labor force will grow at a slightly higher pace than the population and will constitute about 52% of the adult population above the age of 14, and about 36% of the total population. It is estimated at about 1.3 million as against 1.1 million in 1971. Employment will grow still more rapidly, by 2.9% annually, so that by 1978 there will be 1,260,000 employed persons or 230,000 more than in 1971.

A major effort of the Government and of all the participants in the economic life of Israel will focus on raising productivity per unit of manpower and capital input. The success of the economy's development demands not only larger quantities and more modern capital goods, but also that the human resources of Israel must be organized and applied with much greater efficiency. The product per gainfully employed is assumed to grow at the rate of 4.5% annually compared with 3.5% in 1968—71, as a result of higher standards of skill, better deployment of production factors and a higher capital stock per worker.

The gross national product in 1978 is estimated at IL 28,450 million (at 1966 prices) compared with IL 17,180 million in 1971. This assumes an average annual rate of increase of 7.5%, slightly less than in 1968—71, largely because of the slower increase in population and labor force than in the preceding period.

Increasingly, Israel will pursue policies designed to expand internal resources for investment and gradually reduce dependence on capital from abroad. This will involve restraints on the rise in consumption but even so the per capita standard of living is scheduled to increase by one-third in the next ten years.

TABLE 27. Growth of the Israel Economy 1967—1978*
(at 1966 prices)

	1967	1971	1978	Annual rate of growth	
				1967—78	1971—78
A. Total Resources	13,564	18,365	29,140	7.2	6.8
Gross National Product	12,109	17,180	28,540	8.1	7.5
Import	4,050	5,760	11,220	8.1	7.5
Export	2,595	4,575	10,620	13.7	12.7
Import surplus	1,455	1,185	600	-7.7	-9.2
B. Total Uses	13,464	18,365	29,140	7.2	6.8
Private consumption	8,100	10,680	15,740	6.2	5.7
Public Consumption	3,554	4,120	6,000	4.9	5.6
Gross investment	1,910	3,565	7,400	11.3	11.0

* All data at 1966 prices, which means IL 3 = $ 1.

The import surplus is set at $200 million by 1978, which sum is expected to equal the forecasted transfers by institutions. It means that the import surplus is estimated to decrease by as much as 9% annually during 1971—78. This is to be attained by a rapid increase in exports at a rate of 13% annually — somewhat less than in 1968—71 but still much higher than the growth of the national product.

One of Israel's highest priorities in the next decade is to increase exports greatly. This will require improved general policies as well as special efforts focused on export activities. On the domestic scene, the fiscal and monetary policies of Government will be geared to maintaining reasonable price stability, high levels of investment and greater efficiency. Fiscal policies to restrain the rise in consumption will assure that productive capacity for exports will be available and that producers will be more interested in foreign markets. Appropriate fiscal and monetary policies will encourage and facilitate investment so that Israel will have the modern machinery and equipment as well as a skilled labor force needed for competing successfully in international markets.

Consequently, exports are expected to account for 37% of the gross national product in 1978 as against 27% in 1971 and 21% in 1967. This rests on the assumption that the investments made during the Development Plan and in subsequent years will lead to increased exports.

Exports are expected to total about $3,540 million (IL 10,620 million at 1966 prices) in 1978 compared with $1,525 million in 1971. Obviously, this calls for considerable efforts and can be attained only by an extremely consistent Government policy and appropriate action by private promoters and investors.

Imports are expected to amount to $3,740 million and to grow at the same rate as the gross national product. Total national resources will amount to about IL 29,200 million by 1978 or about IL 11,000 million more than in 1971.

For the attainment of these targets by 1978 it is essential that investments continue to grow rapidly while the rise in private and public consumption must be curbed. By 1978 private consumption is estimated at approximately IL15,700 million (at 1966 prices). This implies an annual rate of growth of 6%. Per capita private consumption will be IL4,280 as against IL3,480 in 1971, meaning an annual rate of growth of 3%, the same as from 1966 to 1971. Public consumption will amount to IL6,000 million in 1971 compared with IL4,120 million in 1971 so that the projected annual rate of growth is less than 6% — slightly higher than during 1968—71, but lower than in previous periods.

The gross investment is expected to amount to IL7,400 million by 1978 compared with IL3,565 million in 1971. This assumes an annual rate of growth of 11%, somewhat less than in 1968—71.

To achieve all this, gross national savings are set at IL6,800 million and the average savings rate will be about 24% of the gross national product. From the savings of the private and public sector it will thus be possible to finance about 92% of the gross investment in 1978 as against only 67% in 1971.

These rough indications of future trends and dimensions are not based on any detailed plan but they form a comprehensive frame of reference for the projected economic development until 1978. The eleven-year period 1967—78 must of course be cut down into shorter four to five-year planning periods for which detailed programs must be set up on the economic branch level and specific policy measures must be laid down for the achievement of the targets outlined.

CHAPTER TWO: POPULATION, AND EMPLOYMENT

A. A SURVEY OF THE DEVELOPMENT 1948—1966

Introduction and Summary

The size of the population fulfils a dual function in a country's economic activity: it is the principal source of demand for the economy's production, and also the potential source of supply of the labor factor in production.

Between 1948 and 1966 the population of Israel rose rapidly — from 873,000 in 1948 to 2,657,000 at the end of 1966[1]; the average annual rate of growth was 6.4%, but the main increase took place in the early years.

The Jewish population increased at an average rate of 7.3% per annum, with fluctuations in the rate of increase ranging from 22% in 1948-51 — the years of mass immigration — to 2% in 1966. The average annual growth during the years 1952-66 (when there was no mass immigration) was 3.5%. The contribution of immigration to the growth of population was about 88% in the mass immigration years, varying in other years from an average of 17% in 1952-54 to 66% in 1962.

The growth of the non-Jewish population was slower: from 3.5 to 4.5% per annum, but while the rate of growth of the Jewish population has fallen, the non-Jewish population has been growing at a rising rate. These contrary trends are due to the decline in the number of immigrants and to a fall in the rate of natural increase among Jews, coupled with a rise in the natural increase among non-Jews. As a result of mass immigration, the proportion of non-Jews declined from 17% in 1948 to 11% in 1951, but thereafter it rose slowly to about 12% in 1966, and to 14% in 1967 (following the reunification of Jerusalem).

Between 1949 and 1966 the civilian labor force increased from 343,000 to 943,000 — an average rate of increase of 6.1% a year, compared with an average annual increase of 5.0% in the total population during the same period (this discrepancy will be explained below). After 1952 the rate of growth of the labor force was slower than that of the population, because of an increased proportion of children, and the rate of participation in the labor force[2] was fairly stable at 53-54% of the population of working age

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[1] The data refer to the populations on 8.11.48 and 31.12.66: so the comparison is not exact, owing to the absence of adequate figures.

[2] The number of participants in the labor force divided by the total population aged 14 and over.

The rapid growth of the population and of the labor force confronted th Government with serious problems of creating sources of employment o large scale in relation to the size of the economy. This situation was reflected in its economic policy in the early years, which was primarily concerned with providing a livelihood for the growing population. The fa growth in the number of employed persons and the relatively low level of unemployment at that time were an indication of the measure of success absorbing mass immigration.

From 1949 to 1966 the number of employed persons increased almost threefold: from 309,000 to 874,000. Until 1954, the average annual rate of growth was 12.5%; throughout the period, it was 6.3%, similar to the growth of the labor force, although variations were considerable over th years.

A relatively high proportion in services and construction marks the branch structure of the labor force in Israel. The proportion in agriculture resembles that in most developed countries, while that in industry is relatively low. Only slight changes occurred in this respect during the period, the most important being a decline in the proportion employed in agriculture and an increase in industry. From 1965 there was a decline in the proportion employed in construction and industry.

Although the unemployment rate in the early years reached 10 to 11% of the labor force, the trend during most of the period was on the decrease, particularly in the early sixties. In 1964 it reached about 3% and most of the unemployed were to be found in the northern, southern and Jerusalem districts. In 1965 the proportion began to rise in other parts of the countr as well, and unemployment rose further in 1966 and the beginning of 1967. In times of serious unemployment the Government increased its allocation for relief work projects aimed at alleviating the plight of the unemployed.

1. THE JEWISH POPULATION

TABLE 1. Sources of Growth of the Jewish Population, 1948-1967 (thousands)

Period	Population at beginning of period	Natural increase	Net immigration	Total increase (2)+(3)=	Population at end of period (1)+(4)=	Percent of annual increase (4):(1)=	Percent of net immigration in total increase (3):(4)=
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1948-1966*	650	636	1,099	1,734	2,384	7.1	63.4
1948-1951	650	88	666	754	1,404	23.7	88.3
1952-1954	1,404	101	20	122	1,526	2.6	16.6
1955-1957	1,526	101	136	237	1,763	4.9	57.5
1958-1960	1,763	101	47	148	1,911	2.8	31.6
1961-1964	1,911	134	194	328	2,239	4.1	59.1
1965	2,239	37	23	60	2,299	2.7	38.6
1966	2,299	38	8	46	2,345	2.0	18.1
1967	2,345	35**	4**	39**	2,384	1.7	10.3
1968	2,384						

* From 15.5.48.

** Provisional estimate.

Source: Central Bureau of Statistics.

(a) Immigration

In the years following the establishment of the State, mass immigration, leading to a doubling of the Jewish population in less than three years, had a decisive influence on economic developments.

With the first wave of immigration (actually, two consecutive waves), which began in September 1948 and ended in October 1951, 676,000 immigrants arrived — more than the number of Jewish inhabitants in the country at the beginning of 1948 (approximately 650,000).

These years witnessed the immigration of entire communities from Poland, Bulgaria, Hungary, Rumania, Yemen, Iraq and Libya, and of refugees from the camps in Cyprus and Europe. The immigrants were usually penniless, and few were fit for work, mainly owing to the high proportion of old people and children. The burden of immigrant absorption created economic and other pressures which the country's economy could not bear. It became necessary to change the policy of non-selective immigration of entire communities financed by the Jewish Agency and other bodies. The Jewish Agency, therefore, decided to give preference to immigration from "rescue areas." As a result of this selective immigration policy and exit restrictions imposed by East European governments, immigration in 1952 and 1953 was reduced to a minimum. In 1953 and 1954, restrictions on Jewish Agency-financed immigration were progressively eased, until after 1954 their effects were negligible.

TABLE 2. Immigrants to Israel, 1948-1967 (thousands)

	Number of immigrants*	Average per year	Jewish population at beginning of period
1948-1967	1,253	63	
1948**-1951	685	171	650
1952-1954	51	17	1,404
1955-1957	162	54	1,526
1958-1960	73	24	1,763
1961-1964	221	55	1,911
1965	29	29	2,239
1966	14	14	2,299
1967	18†	18†	2,345
1968			2,384

* Including tourists settling.

** 15.5.1948.

† Estimate.

Source: Central Bureau of Statistics.

Table 2 shows the changes in the intensity of immigration at different periods.

From October 1951, with the end of mass immigration, the number of immigrants continued to decrease: 174,000 arrived in 1951, but only 23,000 in 1952 and 10,000 in 1953. In 1954 their numbers began to rise again, reaching a peak of 71,000 in 1957. The following year witnessed a drop to 23,000 and the slump continued until 1960. In 1961 a new wave began and reached a peak of 62,000 in 1963. The number of immigrants in 1964 was still considerable — 52,000 — but in 1965 it fell again to 29,000. This decline continued into 1966 and 1967 with numbers of 14,000 and 18,000 respectively.

Countries of Origin and Age Structure of Immigration. The first wave, which was of the rescue type and comprised 700,000 immigrants, may be divided into two parts: (a) a first wave, ending early 1950, mainly from the refugee camps in Cyprus and Europe; (b) a second wave from Iraq, Iran and Yemen. Immigration of such volume had a marked effect on the population structure in Israel, as may be seen from Table 3.

TABLE 3. Jewish Population by Continent of Birth, 1948 and 1953*

	Thousands		Percentages		Increase	
	1948	1953	1948	1953	'000	%
Total population	717	1,494	100	100	767	107
Native-born	254	433	35	29	180	71
Foreign-born:	463	1,050	65	71	587	127
Asia	58	292	8	20	234	305
Africa	12	110	2	7	97	797
Europe and America	393	649	55	44	256	65

* 8.11.48 and 31.12.53.

Source: M. Sicron, Immigration to Israel: 1948 — 1953, CBS Special Publications No. 60.

There was a basic difference between the age composition of immigrants from Europe and America and that of immigrants from Asia and Africa. The European-American group was, on the average, older than the established population, while those from Asia and Africa were younger. These differences in some degree, cancelled each other out, so that there was no marked change in the age-structure of the total population (see Table 4), though there was an increase in the proportion of children and aged persons and a slight decline in the intermediate group.

Immigration after 1953 affected the age composition of the population, as it did other aspects, but since its volume was smaller, both absolutely and in relation to total population, its influence was also smaller.

In the post-1955 immigration, there was a difference in the age composition of the European-American group, in which the share of children was greater and that of the 15-29 age-group smaller. There was also a considerable decrease in the proportion of those aged 65 and over.

TABLE 4. Jewish Population, by Age, Continent of Origin and Period of Immigration: 1948*–1966 (percentages)

	Total	Age group				
		0–14	15–29	30–44	45–64	65+
Total 1948-1966						
Population at beginning of period	100.0	28.6	26.4	26.0	15.1	3.9
Immigrants during period:	100.0	31.4	26.5	20.0	17.6	4.4
From Asia and Africa	100.0	39.6	29.2	15.7	12.3	3.2
From Europe and America	100.0	21.6	23.3	25.0	24.1	6.0
Total 1948-1951						
Population at beginning of period	100.0	28.6	26.4	26.0	15.1	3.9
Immigrants during period:	100.0	28.3	29.3	21.2	16.9	4.3
From Asia and Africa	100.0	37.2	31.8	15.6	12.0	3.3
From Europe and America	100.0	19.9	27.0	26.4	21.6	5.1
Total 1952-1954						
Population at beginning of period	100.0	30.9	25.2	22.9	16.9	4.1
Immigrants during period:	100.0	36.1	28.6	16.7	14.6	4.0
From Asia and Africa	100.0	42.3	28.3	16.1	11.0	2.3
From Europe and America	100.0	13.8	29.3	18.5	28.0	10.4
Total 1955-1960						
Population at beginning of period	100.0	32.9	23.3	21.5	17.9	4.4
Immigrants during period:	100.0	39.7	21.5	20.2	17.8	3.8
From Asia and Africa	100.0	41.5	27.2	16.3	12.3	2.7
From Europe and America	100.0	29.8	13.5	25.9	25.5	5.3
Total 1961-1966						
Population at beginning of period	100.0	34.7	21.3	18.8	20.1	5.1
Immigrants during period:	100.0	33.5	23.0	17.7	20.1	5.7
From Asia and Africa	100.0	42.8	25.3	15.3	13.1	3.5
From Europe and America	100.0	20.6	19.8	20.9	29.9	8.8

* From 8.11.48.

Source: Central Bureau of Statistics.

As a result of these changes, and of the higher proportion of Asians a Africans among the immigrants as compared with that of the total populat the immigrants had a higher proportion of children than the established population.

Emigration. Whereas 1,250,000 persons immigrated to Israel up to the end of 1967, about 165,000[3] left during the same period. The ratio o emigration to total population tended to decline — from 7-8 per thousand p annum in the early fifties to 3-4 per thousand in the sixties. Most of the emigrants were immigrants who had arrived after the establishment of the Stat though their share dropped over the years from 67 % of all emigrants in 1948—61 to 55 % in 1962—63.

The small ratio of emigrants to total population meant that their departure had little effect on the general demographic structure.

(b) Natural Increase

Total natural increase grew slowly: from 35,000 in 1951 to 37,000 in 1966 — in 1962 it was lower than in 1951, but thereafter increased continuously until 1966.

The rates of natural increase show a strong and clear downward trend: from 26.3 per thousand in 1951 to 16 per thousand in 1965. One of the reasons is the decline in the share of women of child-bearing age (15—44): from 24 % of the population in 1951 to 21 % in 1966.

Mortality rates declined during the fifties but rose again as from 1960 owing to the increased proportion of old people. In 1965 the mortality rat was 6.4 per thousand, the same as in 1951.

2. THE NON-JEWISH POPULATION

Between 1949 and 1966 the non-Jewish population of Israel grew from 160,000 to 312,000. The share of the migration balance in this increase was negligible, averaging only one per cent per annum.

The number of births increased steadily, doubling in 15 years: from 7,000 in 1951 to 15,000 in 1966. The number of deaths grew much more slowly (1,400 in 1951 and 1,800 in 1966). The birth rate among non-Jews in Israel is among the highest in the world; it grew from 46.5 per thousan in 1951 to 51.4 per thousand in 1964. In 1965, on the other hand, it droppe to 50.7 and in 1966 to 49.5. The mortality rate shows a downward trend throughout the period except for 1951—52. In 1965 it was the same as that for Jews and in 1966 it reached 5.9 per thousand, as compared with 6.3 per thousand for the Jewish population. The difference is due to the younger a structure of the non-Jewish population.

Until now the rates of natural increase among the minorities have been affected mainly by the drop in mortality rates, owing to improved health services. Mortality rates are today very low and will presumably declin no further. If demographic development continues according to well-know stages, birth rates will decline, which is a characteristic of the third stag of demographic development.

[3] Including some 6,000 non-Jews.

TABLE 5. Sources of Growth of the Non-Jewish Population, 1948-1967 (thousands)

Period	Population at beginning of period	Natural increase	Net immigration	Total increase (2) + (3) =	Population at end of period (1) + (4) =	Per cent of annual increase (4):(1) =	Per cent of net immigration in total increase (3):(4) =
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total 1950-1966	160.0	147.2	1.2	152.5	312.5	4.2	0.8
1950-1951	160.0	11.4	2.0	13.4	173.4	4.1	14.9
1952-1954	173.4	18.2	0.2	18.4	191.8	3.4	1.1
1955-1957	191.8	21.2	0.2	21.4	213.2	3.5	0.9
1958-1960	213.2	26.1	(-)0.1	26.0	239.2	4.0	(-) 0.4
1961-1964	243.3	44.0	(-)0.9	43.1	286.4	4.2	(-) 2.1
1965	286.4	13.0	(-)0.1	12.9	299.3	4.5	(-) 0.8
1966	299.3	13.3	(-)0.1	13.2	312.5	4.4	(-) 0.8
1967	312.5	13.1*	65.6* **	78.8* **	391.3	25.2	83.2
1968	391.0						

* Provisional estimate.

** Including inhabitants of East Jerusalem, 65.9%.

Source: Central Bureau of Statistics

3. THE LABOR FORCE[4]

(a) Summary

The civilian labor force increased from about 343,000 in 1949 to 943,000 in 1966, i.e., by 280%. The average rate of growth was 6.1% per annum, compared with 5.0% for the total population during that period.

Between 1949 and 1951, the labor force grew at a much more rapid rate than the population, in spite of the growing percentage of children aged 14 and under, because residents of immigrant camps and a large number of demobilized soldiers joined its ranks.[5]

Labor force participation was fairly stable at 53-54% of the population aged 14 and over throughout the period.[6]

4/ The civilian labor force includes all persons aged 14 and over who are employed or are actively looking for work (for a more detailed definition, see CBS, *Abstract No. 17*, p. 266). The main source of information on the labor force, employment and unemployment are the manpower surveys carried out since June 1954. The surveys are based on a sample of 1% of the population and are therefore liable to considerable error, especially when applied to small groupings. Estimates for the period 1949 — 1954 have been taken from A. Hovne's *The Labor Force in Israel*, Falk Institute, Jerusalem 1961, or from the Bank of Israel.

5/ Dwellers in immigrant camps obtained their basic necessities from the Jewish Agency and did not have access to the labor market. Soldiers do not belong to the civilian labor force.

6/ Up to 1958 this stability results from the assumptions underlying the estimates.

TABLE 6. Population aged 14 and over, by labor force characteristics, 1957-1967 (thousands)

	Population of working age	Civilian labor force		Employed persons	Unemployed persons	
		absolute numbers	percentages (2):(1) =		absolute numbers (2)–(4) =	percentages (5):(3) =
	(1)	(2)	(3)	(4)	(5)	(6)
1957	1,275	690	54.1	642	48	7.0
1958	1,314	698	53.1	655	43	6.2
1959	1,354	720	53.2	680	40	5.6
1960	1,392	740	53.1	702	38	5.1
1961	1,448	768	53.0	735	33	4.3
1962	1,514	808	53.4	777	31	3.8
1963	1,592	846	53.1	817	29	3.4
1964	1,656	883	53.2	854	30	3.3
1965	1,727	911	52.8	881	33	3.4
1966	1,793	943	52.6	874	70	7.4
1967	1,839	927	50.4	831	96	10.5

Note: In 1967 there was a change in the method of estimation in regard to the Army. In the 1966 figures, changes have been introduced in order to adapt them to this system, and the demographic estimates have been corrected on the basis of up-to-date data.

Source: Central Bureau of Statistics and the Bank of Israel.

(b) Age structure of the population aged 14 and over

Table 7 shows the clear upward trend from 1955 onward in the share of the 14 — 17 and 55 + age groups, accompanied by a downward trend in the intermediate groups (18 — 54). Since the participation rates of the latter groups are higher than those of the others, this process would have led to a reduction in the average rate of participation in the labor force had it not been offset, to some extent, by an increase in the specific participation rates in the various age groups.

TABLE 7. Population aged 14 and over: 1955-1966 (selected years) (percentages)

		1955	1960	1963	1966
Total	Thousands	1,178.5	1,391.9	1,592.4	1,793.5
	Per cent	100.0	100.0	100.0	100.0
14—17		9.1	10.2	12.7	12.8
18—34		38.6	35.9	33.9	34.4
35—54		35.6	35.7	33.7	31.5
55—64		9.6	10.9	11.5	12.0
65 +		7.1	7.2	8.2	9.3

Source: Central Bureau of Statistics.

(c) Jews in the labor force

The 14 — 17 Age-group. The participation rates of this group are affected by the number of pupils at school and are therefore considerably lower than the average for the whole population.

TABLE 8. 14—17 age group—Jews studying, by sex: 1952-1967 (selected years)
(Percentage of 14—17 age-group)

	Total	Boys	Girls
1952	42.8	43.0	42.7
1954	51.5	52.5	50.2
1957	57.6	56.6	55.2
1958	58.8	58.6	57.6
1959	61.8	62.3	61.3
1962	60.5	59.6	61.4
1964	56.4	54.2	58.8
1967	62.0	58.2	66.1

Note: The data refer to Hebrew school years (i.e., 1952 = beginning Sep. 1951 to end of June 1952).

Source: Central Bureau of Statistics.

The 18 — 34 Age-group. The participation rate of this group is influenced to a considerable degree by the fact that it includes those on military service and students at institutions of higher education.

The share of the group in the population of working age declined between 1956 and 1966 from 38.7 to 34.8%. At the same time their participation rate in the labor force rose from 54.9 to 58.6%. This increase was due to the increased participation rates of women — from 31.0 to 43.5% — apparently owing to a longer period of stay in Israel and a higher level of education. The rate of participation among men declined from 78.3 to 73.4% during the same period.

The 35 — 54 Age-group. The participation rate here is the highest and most stable of all; in 1966 it was 64.4%. The decline in the proportion of this group in the total population led, therefore, to a drop in the average rate of participation in the labor force. A slight increase took place in participation rates of the women, but this had almost no effect on the average rate for the group.

The 55 — 64 and 65+ Age-groups. The proportion of these two groups in the total population rose considerably between 1956 and 1966. The rates of participation in the labor force also showed a marked rise among both men and women and in 1966 it reached 58.8% in the 55—64 group and 25% in the 65+ group. The explanation is apparently that a growing proportion of persons in these age-groups arrived in Israel at a relatively early age, were absorbed in the labor market and continued to work to a fairly advanced age — whereas in the past this group contained a considerable share of immigrants who arrived at an advanced age and did not settle into work.

(d) The Educational Level of the Labor Force[7]

In 1948 the working population of Israel had a relatively high level of education as compared with developed European countries, and approached that of the United States. This situation was due to the character of pre-State immigration. During the years of mass immigration many of the arrivals came from countries with a very low level of education. Even immigrants from Europe were of a lower average educational level than those who had come prior to the Second World War. The result was a marked decline in the educational level in Israel in the period 1948—1954.

From 1955 onwards, the educational level of immigrants was higher. Moreover, the expansion of education in Israel following the Compulsory Education Law for the ages 5—13 also had its effect.

Table 9 shows that about 24% of the population of working age in 1948 had had not more than four years of schooling; in 1954 the proportion rose to 37%, but it declined to 20% by 1966. The proportion of those with at least some post-elementary education dropped from 44% of the population in 1948 to 32% in 1954, but rose again to almost 47% by 1966.

The educational level must be considered in the light of the general development of the economy. In the early years the economy was small and its technological level low, so that suitable employment for the qualified worker was not always available. As a result, many were obliged to work in jobs requiring far lower skills. The rise in the level of technology in the wake of increased capital per worker led to a growing demand for skilled labor; but the bulk of the immigrants arriving in Israel during that period who formed the potential source of additional manpower had a low educational and professional level. The result was a shortage in fields requiring skilled workers and considerable unemployment among the unskilled. This situation was reflected in the widening of wage differentials during the fifties. The shortage of skilled workers was barely alleviated by the better-educated immigration in the middle of the fifties, since rapid economic development now required a growing number of qualified people. The situation changed, however, with the slow-down of economic activity from mid-1965 on; in 1966 and at the beginning of 1967 a surplus was created and unemployment rates for all levels of skill rose accordingly.

7/ This section is based on: Ruth Klinov-Malul, **Profitability of Investment in Education in Israel**, Falk Institute, Jerusalem, 1966.

TABLE 9. Jewish population aged 14 and over, by years of schooling and period of immigration: 1954, 1961 and 1966 (per cent)

Year and period of immigration	Number of years of schooling				
	Total	0–4	5–8	9–12	13+
1954*: Total	100.0	36.7	31.0	27.1	5.2
Israel-born, and foreign-born who immigrated up to 1947	100.0	23.7	32.5	36.0	7.8
Foreign-born who immigrated from 1948 to 1954	100.0	48.3	29.7	19.1	2.8
1961: Total	100.0	20.1	35.4	34.6	9.9
Israel-born	100.0	4.1	26.3	54.2	15.3
Foreign-born who immigrated					
up to 1947	100.0	10.8	33.9	41.3	14.0
from 1948 to 1954	100.0	29.9	39.3	26.2	5.6
from 1955	100.0	28.4	36.9	25.6	9.1
1966: Total	100.0	20.0	33.2	36.1	10.7
Israel-born	100.0	3.0	25.5	54.8	16.7
Foreign-born who immigrated					
up to 1947	100.0	11.6	32.0	40.2	16.2
from 1948 to 1954	100.0	27.9	37.1	28.1	6.9
from 1955	100.0	30.1	35.6	27.5	6.8

* Aged 15 and over.

Source: Central Bureau of Statistics.

(e) Non-Jews

The non-Jewish population of working age increased from 108,000 to 160,000 between 1956 and 1966, i.e., at an average annual rate of about 4%, which approached the rate of growth of the Jewish population. The number belonging to the labor force grew from 47,000 in 1955 to 74,000 in 1966, but their share in the total labor force remained unchanged throughout the period.

During the whole period the proportion of non-Jews in the labor force was low — about 7% — compared to their share in the total population — about 11%. This discrepancy may be explained by the age composition of the non-Jewish population, almost half of whom were aged 13 and under (the corresponding proportion among the Jews was one-third), and by the relatively low rates of participation in the labor force — 40-47% as against 53-54% in the total population of working age.

This low participation rate is in turn due to the extremely low participation rates of Arab women — 7-12% in the years under review, compared with 24-29% for the total female population of working age.

4. EMPLOYMENT[8]

The number of employed persons[9] was 309,000 in 1949, and this figure increased almost threefold — to 874,000 — by 1966.

The need to create productive sources of employment for the rapidly growing labor force was one of the major problems of the economy during and after the years of mass immigration, i.e., throughout the fifties. The economic policy of the Government was thus primarily concerned with expanding employment opportunities by directing considerable sums to construction works and development projects through its Development Budget. Widespread unemployment and foreign currency restrictions exercised a dominant influence on development policy at the beginning of the fifties. Towards the end of the decade this influence began to wane as foreign currency balances gradually accumulated and unemployment declined slowly but progressively throughout almost the whole period up to 1965.

During the early years the number of employed persons increased at an extremely rapid rate — about 15% per annum on the average. This was a reflection of the rapid growth of the population and of the labor force in

8/ The main source for these data was the CBS Manpower Survey.
One survey was carried out in 1955 and 1956, and data for these years are liable to contain considerable deviations arising from chance and seasonal factors. In following years the surveys were made several times a year and the findings are those of yearly averages (for a detailed explanation, see, for example, Abstract No. 17, p. 285). Data for 1949-1956 are taken from various sources. An additional source of information — the National Insurance Institute — has published figures from 1961, but for employees only.

9/ Employed persons — all those who engaged at least one hour during the week of the survey in any sort of work for wages or profit; all workers in the kibbutzim and their families who worked more than 15 hours without payment in the week of the investigation. Also included were persons temporarily absent from work (a more exact definition may be found in CBS, Labour Force Surveys, 1963, Special Publication No. 176, p. 46).

the wake of mass immigration, and the relatively rapid absorption of the new arrivals into the employment structure. A considerable proportion of the growth in employment was made possible by widespread construction projects, mainly financed by the Government. This, however, created strong inflationary pressures which led to a change in Government policy in 1952, when there was a slowdown in the growth of employment and a marked rise in unemployment. However, economic growth, accompanied by increased employment, was resumed after 1953.

1955 was followed by years of rapid economic growth. Renewed immigration and increased investment brought about expanded employment; growth was slow in comparison with the preceding period but rapid in relation to the growth in the labor force. This process also led to reduced unemployment. The rapid growth of employment continued and even gathered momentum in 1960 to 1964, in concert with the wave of economic prosperity. Decreasing unemployment during these years was accompanied by a decline in the number employed on relief works. Economic activity slowed down in 1965 and with it the growth in employment. The number of employed persons increased less than the labor force and the number of unemployed rose. In 1966, for the first time in Israel, there was no rise in the number of employed persons.

(a) Employment in the Branches of the Economy

From the early years the employment structure was marked by a heavy concentration on services, similar to that in countries with a much higher level of per capita income. The percentage of workers in agriculture, on the other hand, was relatively lower than in most countries on the threshold of economic growth. One of the reasons was the large capital import: since the import surplus served mainly to increase the supply of goods, it led to emphasis on the production of services. In the wake of the considerable rise in per capita income, a rise also took place in the demand for services, with their high income elasticity. The number of workers in construction was also high in comparison with most developed countries.

The main trends in employment by economic branch during the period under review showed a decline in the proportion of workers in agriculture and a rise in that of industrial workers. Some increase also occurred in public and business services; the proportion of service workers actually remained stable up to 1964 and began to rise only in 1965, apparently following the general economic recession. Economic restraint mainly affected the construction industry, though a marked decline in construction employment was not registered until 1966. The recession also caused a decline in industrial employment.

(1) Agriculture, Forestry and Fishing

The establishment of the State increased the availability of land and, as a result, the possibilities for agriculture, while the growth in population created a severe shortage of food. It was thus necessary to expand agriculture as rapidly as possible, which was done by providing capital and manpower.

TABLE 10. Employed Persons by Economic Branch: 1950, 1954, 1958-1966

	1950	1954	1958	1959	1960	1961	1962	1963	1964	1965	1966
						Thousands					
Total	421.0	556.0	655.1	680.0	701.9	735.3	777.2	817.0	854.5	881.1	873.9
All employed persons fishing	72.9	96.0	115.1	119.7	120.0	121.6	120.1	117.4	118.8	117.6	110.1
Manufacturing (crafts, mining and quarries)	89.4	121.5	146.7	153.7	162.9	177.8	194.7	210.4	221.6	224.5	221.1
Construction (including public works)	37.0	42.4	64.3	65.3	65.3	68.4	75.2	79.7	82.8	84.9	76.0
Electricity, water and sanitary services			14.7	16.2	16.1	16.2	16.2	16.5	17.0	17.7	18.3
Commerce, banking and insurance			80.8	83.0	85.6	89.2	95.3	100.9	105.8	109.9	113.6
Transport, storage and communication	28.4	35.2	40.4	42.2	44.2	45.5	47.6	50.3	54.0	55.9	57.7
Public and business services	193.3*	261.9*	143.4	148.1	153.7	160.8	168.7	178.9	118.0	201.2	205.4
Personal services			49.7	51.7	54.1	55.8	59.4	62.9	66.5	69.4	71.7
						Percentages					
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
All employed persons fishing	18.3	17.1	17.6	17.6	17.1	16.5	15.5	14.4	13.9	13.3	12.6
Manufacturing (crafts, mining and quarries)	21.2	21.9	22.4	22.6	23.2	24.2	25.0	25.7	25.9	25.6	25.3
Construction (including public works)	8.8	7.6	9.8	9.6	9.3	9.3	9.7	9.8	9.7	9.6	8.7
Electricity, water and sanitary services			2.2	2.4	2.3	2.2	2.1	2.0	2.0	2.0	2.1
Commerce, banking and insurance			12.3	12.2	12.2	12.1	12.3	12.4	12.4	12.5	13.0
Transport, storage and communication	6.7	6.3	6.2	6.2	6.3	6.2	6.1	6.2	6.3	6.3	6.6
Public and business services	45.0*	47.1*	21.9	21.8	21.9	21.9	21.7	21.8	22.0	22.8	23.5
Personal services			7.6	7.6	7.7	7.6	7.6	7.7	7.8	7.9	8.2

* Includes electricity, water and sanitary services; commerce, banking and insurance.

The expansion of agricultural settlement with the aid of immigrants, who lacked agricultural experience or training and were at first supplied with insufficient equipment, led to a drop in average agricultural productivity during the early years. As time went on, however, investments bore fruit, means of production were added, experience amssaed, methods improved, efficiency increased and output per employed person rose at a higher average yearly rate than in any other branch of the economy.

The number of persons employed in agriculture grew rapidly from 73,000 in 1950 to 121,000 in 1961, but their share of the total remained almost constant at 17-18% up to 1960; in that year the proportion of persons employed in agriculture began to decline and in 1962 even their absolute number began to fall; in 1966 it was 110,000 — only 13% of the total employment.

Two factors were responsible for this trend. Firstly, the rate of growth of agricultural output fell owing to saturation of the market and the completion of the utilization of water resources, while the expansion of agricultural exports was not sufficient to offset the slowdown in local demand. Secondly, the rapid increase in productivity due to capital investment and technological progress enabled every rise in demand to be met without additional workers and even with less.

(2) Manufacturing, Mining and Quarries

The early stages of economic growth in most developed countries are marked by a process of rapid industrialization, resulting in a rise in the share of manufacturing and a decline in that of agriculture, both in terms of production and of employment. In Israel's early years, however, there was no such growth in industry and even a downward trend in its share of production and employment. This trend was only halted at the end of the fifties. From 1959 on there were indications of a rapid rise in the share of industry in the economy, but it was severely hit — as was construction — by the slowdown commencing in late 1965.

The main reasons for the relatively slow development of industry in the early years of the State were the need to allocate maximum resources to the supply of essential goods — mainly food — for the rapidly growing population, and the shortage of foreign currency for the import of equipment and raw materials.

In the second half of the fifties the rate of investment was accelerated, though rapid growth began in earnest only towards the end of the decade.

1959 was a turning point in the economy's development, emphasis passing from agriculture to industry. Between 1959 and 1965 industry absorbed almost 35% of additional workers and employed 25% of the total.

In the early sixties there was a shortage of workers, first in the higher echelons and later at all professional levels, in the economy in general, and in industry in particular. With the economic restraint of 1965, the rate of growth of employment in industry slowed down, and in 1966 there was even a decline, which became more pronounced at the beginning of 1967.

It should be pointed out that industry's share in the economy of Israel, in both production and employment, is lower than that in developed countries in Europe and in the United States, and even lower than in countries with a similar level of national product per capita.

(3) Construction

The share of construction — in terms of production and employment— in the economy was relatively high in comparison with developed countries. This was due, *inter alia*, to the need for housing the expanded population. Indeed, housing comprised 54% of total production in this branch of the economy during the period under review.

All the output of the construction industry goes to end uses. Local inputs provide about 90% of output[10], almost 40% being inputs of raw materials from other branches. As a result of these characteristics and the relatively large share of construction in the economy, fluctuations in the demand for building have had widespread repercussions on the whole economy, especially on industries supplying it with most of its raw materials. The effect of construction on employment is also considerable, both as regards the large number directly employed and the indirect influence on demand from other branches.

Building has undergone marked fluctuations even in non-recession years. Nevertheless, with the exception of three slowdown periods which will be discussed below, employment has grown continuously; fluctuations in output seem to have affected not employment but productivity per worker.

Between 1960 and 1964 there was considerable expansion, both in the construction of dwellings (following increased immigration and higher standards of immigrant housing) and in other branches of the economy. As output grew, so did the number of persons employed, although their share in the total economy remained almost unchanged.

In 1952-53, 1956 and 1966-67, slumps occurred in the branch and output dropped by 8-20%. The brief and slight recession of 1956 would seem to have been a consequence of the Sinai Campaign.

The 1952-53 slowdown was caused by *the cessation of deficit financing* from the Development Budget, a large part of which had been spent on housing — some of it temporary — for mass immigration. The new economic policy and the drying-up of immigration led to a considerable reduction in local demand and thence to recession and an unemployment figure of more than 9% of the labor force.

One of the aims of the Government's policy of economic restraint was the diversion of resources from construction to exports; this led to a deep slump in building in 1966, which was intensified by other factors. Growth in output already slowed down in mid-1965, and in 1966 there was a steep drop of 18%. The trend continued and even worsened in the first months of 1967; the average number employed dropped from 85,000 in 1965 to 77,000 in 1966, and the decline continued at a faster rate throughout the early months of 1967.

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[10] Source: M. Bruno, *Interdependence, Use of Resources and Developments in the Israel Economy*, Bank of Israel, Jerusalem, 1962. The data refer to 1958 but it is unlikely that radical changes have since taken place.

(4) Services[11]

The share of services in product[12] and in employment is more than 50% and has been fairly stable throughout the period. This is high in comparison with countries with a similar per capita product, particularly as regards public health and education, transport and — to some extent — even financial services. On the other hand, the proportion of trade and personal services is not particularly high.

The main cause of this over-concentration in services is the large import surplus, which leads to increased production of local services in several ways. Since import is commodity-intensive, it tends to divert local production to services to avoid competition; it also creates a demand for transport, trade, banking and other business services.

A considerable part of the capital imports which help to finance the import surplus finds its way to the public sector, which results in an increased number of workers in this sector. It would appear that a partial explanation for the high concentration of workers in the public sector is that there is some measure of latent unemployment. This has existed since the early years of the State and is due, *inter alia*, to some overlapping between the work of the Government and the National Institutions, which has been carried over from the British Mandate.

Another factor is the relatively weighty role played by the public sector — mainly the Government and the National Institutions — in the country's economy activity. There have been — at least in part — objective reasons for such a development: immigration and its absorption, defence considerations, heavy outlay on health and education. Yet another reason may be found in the vocational composition of the immigrant population — mostly white collar workers, businessmen, middlemen, members of the liberal professions, etc.

Employment in services increased proportionately between 1965 and 1967. The addition took place almost entirely in public services (where activity is not essentially guided by the profit motive and the effects of the economic recession were weaker than in other sectors). Though the share of this sector increased in absolute terms, the growth rate was slower than in previous years.

Transportation. The number of persons employed in this branch rose from about 28,000 in 1950 to 58,000 in 1966; its share in total employment remained steady at 6-7%, though its share in the product increased. This was due to the expansion of shipping and aviation, which led to a considerable increase in capital intensity within the branch. Output per worker increased faster than the general average.[13]

11/ Transportation, electricity, water and sanitary services, commerce, banking and insurance. Government, public and business services, and personal services. This section is based partly on: Gur Ofer: *The Service Industries in a Developing Economy: Israel as a Case Study*. Bank of Israel in cooperation with Praeger, New York, 1967.

12/ Dwelling services are not included in this section.

13/ Some of the increase in domestic product per worker is due to the rise in the number of foreigners engaged in shipping — their wages are included in local product but they themselves are not counted in the employment estimates.

Government and Public Services. These employ over a fifth of all workers in the economy; the proportion has remained constant throughout the period 1957-1964. The branch's share in total employment rose somewhat from 22 % in 1964 to 24 % in 1966. There were 142,000 persons employed in these services in 1957, the first year with reliable data, and 205,000 in 1966.

Other Services. All the other services together comprised some 22-23 % of total employed persons. Twelve to 13 % were engaged in trade, finance and insurance, almost 8 % in personal services and about 2 % in electricity, water and sanitary services. The number of employed was about 145,000 in 1958 and 204,000 in 1966. The percentage of employed persons in each of these branches remained unchanged, though the total rose to slightly over 23 % in 1966.

(b) Employed Persons by Occupation,[14] Continent of Birth and Period of Immigration

Table 11. Employed persons by occupation, selected years 1958-1966 (percentages)

Occupation	1958	1960	1963	1966
Total	100.0	100.0	100.0	100.0
Professional, scientific, technical and related workers	10.8	11.3	12.3	13.7
Administrative, executive, managerial and clerical workers	15.5	14.1	15.7	16.3
Traders, agents and salesmen	8.9	9.1	8.1	8.5
Farmers, fishermen and related workers	17.4	17.1	14.0	11.7
Workers in transport and communications	4.9	4.8	5.4	4.9
Craftsmen, production process and related workers	31.1	31.1	32.8	32.9
Services, sport and recreation workers	11.4	12.5	11.9	12.1

Source: Central Bureau of Statistics.

In 1958 about 11 % of all employed persons were members of the liberal, scientific and technical professions; over 15 % were administrators, executives, managerial and clerical workers, almost 9 % were engaged in trade and selling, 31 % in industry, handicrafts and construction, more than 17 % in agriculture, about 11 % in services, sport and recreation, and almost 5 % in transportation and communications.

The main change in the occupational structure was the increased proportion of the members of the liberal and scientific professions, which reached some 14 % in 1966. The rise in the number of jobs requiring a high degree of skill and specialization is in keeping with the growth processes in advanced countries and the rise in the general level of education among the working population of Israel during the period under review.

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[14] Data are available only from 1955, and these are not completely reliable, particularly before 1957. Detailed figures are available only on the basis of the Population and Housing Census of 1961, though the share of the "upper" occupations — liberal professions, managerial workers, etc. — is greater than in the Manpower Surveys of the various years. This casts suspicion on the reliability of the Census figures and of course precludes a comparison between them and the figures of the manpower surveys.

Administrators, executives and clerks comprised a stable percentage of the total — 14-15% — up to 1960; in 1961 the proportion rose slightly, reaching 16% in 1966. Agricultural workers dropped from 17 to 12%, while transport and communication workers remained at about 5%, and businessmen at about 8%.

The changes in the breakdown of employed persons by occupation is explained by changes in the branch structure of employment and changes in occupational groups within these branches.

The increase in professional and technical workers was especially in the services (which employ almost 90% of this occupational group). Other branches also recorded increases in the proportion of members of these professions, but these had relatively little effect. The rise in the proportion of workers in services, sport and recreation is also due to some expansion in the services, branches which employ over 80% of such workers.

The growth in the number of craftsmen, production process workers is due entirely to the considerable increase in the share of the industrial and construction branches in total employment; it would have been even greater but for the decline in the share of this type of workers in the total number employed in these branches.

The decline in the percentage of workers employed in agriculture up to 1961 was the result of the fall in the share of such workers among the minority communities, while the proportion of Jews thus employed remained unchanged. In the first half of the sixties the Jewish share also declined.

There are marked variations in the distribution of occupations according to continent of origin. The share of liberal, managerial and clerical professions is highest among the Israel-born — 40% in 1959, compared with 31% among Europeans and Americans and only 13% among those born in Asia and Africa. More of the latter group are engaged in industry, handicrafts and construction — 38%, as compared with 30% among Europeans and Americans and 22.5% among the Israel-born. Nine per cent of those born in Israel are employed in services, recreation and sport, as against double this proportion among both immigrant groups. Veteran residents of European and American origin contain a far higher proportion of members of the liberal and allied professions, particularly managerial and clerical workers, than those of similar origin who arrived after the establishment of the State. Their representation in industry, handicrafts and construction is correspondingly lower than that of the new immigrants from the same continents.

The discrepancies in the occupational distribution between the various groups — foreign-born, Israel-born, veteran residents and new immigrants — would appear to be due to the occupations of Jews abroad and to the different levels of education among immigrants from different continents.

The Israel-born have the highest educational level and contain the highest proportion of persons employed in the liberal and allied professions. Next come those from Europe and America, whilst the representation of the Asia-Africa group in these professions is slight.

Table 12. Jewish Employed Persons, by Occupation and Continent of Birth, 1958-1966, selected Years (percentages)

	1958				1960				1963				1966			
	Total	Israel-born	Born in Asia and Africa	Born in Europe and America	Total	Israel-born	Born in Asia and Africa	Born in Europe and America	Total	Israel-born	Born in Asia and Africa	Born in Europe and America	Total	Israel-born	Born in Asia and Africa	Born in Europe and America
Total	100.0	100.0	100.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Professional, scientific, technical and related workers	11.3	18.5	4.3	12.7	11.9	21.1	3.7	14.0	12.9	21.2	4.7	15.4	14.4	22.9	5.9	17.2
Administrative, executive, managerial and clerical workers	16.4	21.4	8.4	18.7	14.9	19.4	7.0	18.2	16.8	21.7	8.1	20.8	17.4	22.8	9.8	20.8
Traders, agents and salesmen	9.1	(4.6)	7.6	10.8	9.3	(4.6)	7.7	11.5	8.4	4.2	7.0	10.9	8.7	3.8	7.4	11.8
Farmers, fishermen and related workers	15.6	16.4	24.0	11.6	14.8	15.1	22.3	10.5	11.8	10.6	17.6	8.4	9.5	10.6	12.7	6.5
Workers in transport and communications	5.0	7.8	3.0	5.3	4.9	7.1	4.2	4.7	5.5	9.1	4.5	4.8	4.8	6.9	4.5	4.2
Craftsmen, production process and related workers	30.8	22.5	37.7	29.8	31.3	24.1	37.6	29.6	32.1	25.1	41.7	28.3	32.6	23.9	42.3	29.1
Services, sport and recreation workers	11.8	8.8	15.0	11.1	12.9	8.8	17.5	11.5	12.5	8.1	16.4	11.4	12.6	9.1	17.4	10.3

Source: Central Bureau of Statistics.

The heavy concentration of the foreign-born in business, trading and selling would seem to be the consequence of many Jews abroad having engaged in these occupations. Most immigrants from Asia and Africa are engaged in agriculture, industry, handicrafts and construction — which do not usually require a high level of education.

Apart from slight fluctuations, the discrepancies described here were present throughout the period and show no marked tendency to decrease.

Occupations of Non-Jews

The occupational distribution of the non-Jewish population shows a marked concentration in agriculture and building, and slight participation in the liberal and allied professions and in administrative and clerical posts.

In 1963, 38% were engaged in agriculture, 23% in construction, about 18% in crafts and industry, and some 17% in transport, communications, commerce and services. Only 2% were employed in clerical and administrative posts, and 5.5% in the liberal and technical professions. No reliable data are available on the occupational composition of non-Jews in earlier years, but it would appear that no marked changes occurred.

5. UNEMPLOYMENT

(a) Volume of Unemployment and the Economic Background[15]

In the early years of the State, during which almost 130,000 new immigrants were added to the labor force, in addition to demobilized soldiers, the unemployment rate was fairly high, reaching 11.5% of the labor force in 1950.[16] The reason for the unemployment then prevailing was to be found mainly in the difficult process of adapting the economy physically and organizationally to the rapid increase of the labor force. Although during those years capital import was considerable, it was not possible to materialize all investments rapidly enough for the immediate absorption of all immigrants.

After a year or two, the economy started to adapt itself to the new situation and unemployment gradually decreased until it reached 7% in 1951. In 1952, as a result of acute shortage of foreign currency reserves and inflationary pressures, the Government was obliged to adopt a new economic policy. This was mainly a policy of restraint, as a result of which there was a marked decrease in the rate of growth of economic activity. The drastic decline in immigration allowed the Government to cut down its investments in building. Owing to the restraint in economic activity during 1953, the rate of unemployment rose again to 11%. As from 1954 economic activity increased again substantially, and the rate of unemployment fell to 7% in 1955.

15/ The rate of unemployment is defined here as the percentage of unemployed persons in the entire civilian labor force. An "unemployed person" is defined by Labor Force Surveys as a person (aged 14 or over), who did not work at all (not even one hour) and sought work actively during the week of the survey, whether by registering at any employment office, by applying for a job in person or in writing, or by attempt to est up his own business, etc. (Additional details may be found in the CBS Labor Force Surveys 1963, special publications series, No. 176, p. 36.)
These data cannot be compared with unemployment data only covering persons seeking salaried employment through the General Labor Exchanges of the National Employment Service.

16/ Including those living in immigration camps.

The rate of decrease in unemployment continued steadily until it dropped to 3% in 1964. In 1965, the first signs of an economic slowdown became visible, and there was a deterioration in 1966 and 1967, when the rate of unemployment rose again to 7% and 10% respectively. During the second half of 1967 economic activity showed an upward trend and unemployment declined.

The influence of immigration on employment was not identical throughout the various periods. During the first period after the establishment of the State, each wave of immigration was usually accompanied by a rise in unemployment. This was especially so during the years of mass immigration and in 1956-57, when there was a fairly high level of unemployment due not to a shortage of demand but to a shortage of complementary factors of production — mainly foreign currency. The immigrants caused a further increase in local demand, but this merely added to the inflationary pressures, whereas the expansion of employment was limited by the lack of foreign currency.

During the second period — in the sixties — foreign currency reserves increased considerably, thus removing the hindrance to the creation of new jobs. In addition, the change in immigrant absorption policy — particularly the supply of permanent housing — created increased demand in the wake of immigration. Consequently, the large immigration wave of the early sixties was accompanied by a substantial increase in employment, and even by a shortage of workers in some districts. This period also witnessed a constant increase in the deficit on current account of the balance of payments, which reached a record of $ 570 million in 1964.

The developments described above did not affect all categories of workers, since the shortage of highly-qualified workers was felt even in periods of unemployment. Nor were unemployment trends uniform throughout the country. In the northern and southern districts, which contain most of the development areas, and to some extent also in the Jerusalem District, there was severe unemployment even in the boom years: up to 20-30% of the total labor force (including those employed full-time on relief work). This unemployment was mainly structural and was due to an absence of geographical coordination between demand for and supply of workers. The spread of economic activity did not correspond to the dispersal of the population, and this led to labor shortages and claims for higher wages, despite the fact that over 3% of the labor force was unemployed. Unemployment by districts will be discussed later on.

One of the means adopted to assist the unemployed was relief work, but the number of persons employed on relief work in past years was usually small, and consisted mainly of old or partially incapacitated persons who were difficult to employ even in periods of full employment. The number of fully fit workers engaged in relief work did rise in periods of unemployment, but in general it did not exceed an average of 3-4,000 a year.

During the fifties there was a fairly rapid rise in the number of persons employed on relief work. Up to 1953 this had little effect in reducing the growth of unemployment, but thereafter part of the drop in the rates of unemployment was due to the rise in employment on relief work. After the year 1959, both unemployment and relief work decreased up to the middle of 1965 (apart from a slight rise in 1962). There was a renewed increase in the number of persons employed on relief work in the second quarter of 1966, but it was a slow rise and its effect on unemployment was negligible.

(b) Characteristics of the Unemployed

During the whole period under review unemployment was concentrated among certain groups of the population — and usually in the same groups — whose share in unemployment was larger than their share in the labor force. The level of unemployment was higher among younger and older workers than in the intermediate age-groups, and higher among women than among men. Unemployment analysis by origin and length of residence shows that the rate of unemployment was higher among persons originating from Asia and Africa than among the native-born and the Europeans and Americans, and higher among new immigrants than among veteran residents.

The growth of unemployment in 1966 was accompanied by slight changes in the distribution of unemployment among the various groups: (1) a relatively steep increase in unemployment occurred among non-Jews (up to 11.2%); (2) unemployment among women increased more slowly than among men and the rates of the two groups were equalized in 1966. The rate of unemployment according to level of education was highest in the group who had 1-4 years schooling — it grew 2.7 times as compared with an average growth of 2.1 times for the total population. The lowest rate of growth was among those with 13 years of schooling or more, among whom the number of unemployed rose only 1.6 times as much as in 1965. Between 1965 and 1966, the number of unemployed increased by almost 29,000. Half of this number came from industry and construction, and the share of these branches in the total number of unemployed rose from 52% to 57% approximately.

(c) Regional Unemployment[17]

During the fifties unemployment prevailed mainly in the Northern and Central districts, which accounted for a far greater proportion of unemployment than their share in the total labor force. In the first half of the sixties a rapid improvement occurred in the Central District, but a relative deterioration in the Northern and Southern districts.

During the years 1961 to 1964, the daily average number of unemployed was about 3,000[18], most of them in the development areas of the Northern, Southern and Jerusalem districts. It seems, therefore, that these areas did not derive much benefit from the general economic prosperity and full employment or even a shortage of labor in other parts of the country.

The slowdown in economic activity at the beginning of 1965 was first noted in the Tel Aviv, Haifa and Central districts, which until then had

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[17] Information on unemployment in the various districts is available mainly from Labor Exchange data. In the manpower surveys, regional figures on unemployment exist only as from 1965. Up to 1966 the number of unemployed was so small that district figures had no significance. The information of the Employment Exchanges also contains numerous deviations due mainly to changes in the registration system, as well as to the opening of new exchanges, which resulted in more unemployed registering at the places concerned.

[18] The daily average of unemployment in any given month is obtained by dividing the total number of days of unemployment of all unemployed persons registered at the Labor Exchanges by the possible number of workdays in that month.

Table 13. Labor Force, Daily Average of Unemployed and Relief Workers,* by District: 1964-1967

District	1964				1965				1966			
	Labor force	Unemployed	Relief workers	(2) + (3) = (4)	Labor force	Unemployed	Relief workers	(2) + (3) = (4)	Labor force	Unemployed	Relief workers	(2) + (3) = (4)
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Whole country absolute numbers	883,600	3,397	1,940	5,339	912,400	3,200	1,907	5,107	943,400	7,930	3,830	11,760
Percentages	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North	15.6	29.9	81.3	48.7	14.8	26.6	81.1	46.9	16.1	17.2	57.1	30.2
South	6.9	16.4	15.3	15.9	8.7	13.8	15.5	14.7	9.1	15.0	26.6	18.8
Jerusalem	8.4	9.6	1.7	6.7	8.2	9.0	1.7	6.3	8.6	6.7	1.6	5.0
Haifa	18.9	14.1	1.7	9.6	16.9	18.6	1.7	12.3	17.4	19.0	5.5	14.6
Central	18.8	16.2	—	10.3	19.0	16.4	—	10.0	17.4	19.6	7.1	15.6
Tel Aviv	31.4	13.8	—	8.8	32.4	15.6	—	9.8	33.2	22.4	2.0	15.8

* Working full time.

Source: Central Bureau of Statistics.

enjoyed prosperity and where there was a shortage of workers. At this stage the development areas did not yet suffer from the recession, and there was even a downward trend in the number of unemployed and of those employed on relief work.[19] At the end of 1965 it was not yet clear whether the economy was going through a passing phase or a radical change in employment trends. In early 1966, however, there was a fairly rapid increase in unemployment in all areas, though at varying rates. The proportion of unemployment in the Central, Tel Aviv and Haifa districts, which until then was very low, now increased considerably, to such an extent that by the end of the year the proportion of unemployed in the Haifa and Central districts exceeded their share in the labor force — a phenomenon which was characteristic of development areas.

It will be seen below that from the beginning of the sixties the development areas suffered from a high level of unemployment, which remained relatively stable throughout the period and was hardly affected by fluctuations in economic activity in other parts of the country. The changes which occurred in the geographical distribution of unemployment among the districts is given in Table 13 above.

The Northern District. Whereas up to 1964 the level of unemployment in this district was far above the national average, in 1965 there was a slight improvement in both relative and absolute terms, and its share in unemployment decreased. In 1964 the daily average of unemployed in this district was over 1,000, or about one-third of the total number of unemployed in the country; in 1966 its share of national unemployment fell to 27%, and there was also a drop in the number employed on regular relief work. In the second quarter of 1966 the daily average of unemployed began to rise again, and since then it has continued to rise, but at a slower rate than in other districts, so that its share in total unemployment has become smaller — falling to 17% of national unemployment in 1966. One explanation of this phenomenon is that between 1963 and 1965 about 80% of the able-bodied men employed on relief work in the country were concentrated in the North. Workers on relief projects also formed a large percentage of total employed persons in this district, so that their employment was not affected by the slowdown.

It should be noted that despite the relative improvement in the Northern District, its share in unemployment was still higher than its share in the labor force (16% in 1966), and the fall in its share of unemployment in 1966 was not due to an improvement in this district, but to a further deterioration in the other districts.

The Southern District. This district was also afflicted by a high level of unemployment up to 1964 — higher even than in the Northern District. In 1965 there was a slight improvement, when its share in total unemployment fell from 16% in 1964 to 14%. The number of relief workers also fell to some extent. In the first quarter of 1966 the situation began to deteriorate. The rise in unemployment was similar to the overall trend in the country and the Southern District's share in unemployment remained at 15% on the average. It accounted for only 9% of the national labor force in 1966.

19/ Working a full day, as distinct from old and partially incapacitated persons who work only five hours a day.

The Jerusalem District. Prior to 1964, unemployment declined much more slowly in this district than in other areas. The rise in the daily average of unemployed had actually started by the second half of 1965, and continued with fluctuations until the beginning of 1966. Since then the rising trend continued steadily, though still at a relatively slow rate. The district's share in total unemployment fell from 9 – 10% in 1964 and 1965 to about 7% in 1966. Its share in the national labor force was approximately 9% in 1966.

The Haifa District. Up to 1964, with the exception of 1962, unemployment in this district fell at a more rapid rate than in the rest of the country, but in 1965 it was the only area where unemployment rose during the first quarter of the year. As a result, Haifa's share in total unemployment increased from 14% in 1964 to 19% in 1965. In 1966 the rise in unemployment continued at a rate similar to the national average and its proportionate share thus remained unchanged. This district's share in unemployment is greater than its share in the labor force, which amounted to only 17% of the national total in 1966.

The Central District. Since 1956 the drop in unemployment in the Central District was more rapid than in other parts of the country, but unemployment began to rise rapidly in 1966. Following the deterioration in the unemployment situation — this district was one of the worst hit by the recession — relief projects were instituted as from mid-1966, although previously no relief work had been allocated to the district. Its share in unemployment rose from about 16% in 1964 and 1965 to 20% in 1966, whereas its share in the national labor force was 17% in 1966.

The Tel Aviv District. This district, like the Central District, was one of the worst hit by the recession. Whereas since 1957 its share in total unemployment had been steadily reduced, it began to rise again in 1965 and reached a figure of 16% as against 14% in 1964. Its proportion of unemployment continued to rise rapidly, reaching a daily average of 22% of total unemployment. Nevertheless this proportion is still much lower than the district's share in the national labor force, which was 33% in 1966. In the Tel Aviv District, too, regular relief work was initiated as from August 1966.

B. POPULATION AND EMPLOYMENT 1968—1971

1. INTRODUCTION AND SUMMARY

The rapid growth of the population was one of the most striking characteristics of Israel's development in the past, but there was a considerable downward trend in the rate of increase during the past two year period.

From the economic point of view, a growing population and a rising level of income may contribute to greater efficiency in production in so far as they facilitate large-scale production and specialization. The need for a more rapid population increase, however, stems mainly from national political and social considerations. These existed in the past as well, but they have been aggravated and highlighted by the new situation that has arisen as a result of the Six-Day War.

In the second quarter of 1967, economic activity revived after the recession that set in during the second half of 1965. According to the plans envisaged for the coming four years, this activity will be stepped up still further. The Gross National Product is expected to grow by an average of 9% annually, compared with about 3% over the period 1965 — 1967. Investments, exports and consumption are expected to increase. This intensified development will create some 200,000 new jobs, so that unemployment will go down by about 50,000, although the labor force is expected to increase by about 150,000. The unemployment rate — i.e. the percentage of the total labor force that is unemployed — will thus go down from 10% in 1967 to about 4% in 1971.

2. POPULATION IN 1968—1971

By the end of 1967 Israel had a population of 2,775,000, of whom 2,384,000 were Jews. The average population for that year was 2,714,000 including 2,363,000 Jews.

In 1968—71 the population is expected to increase by about 338,000 — natural increase furnishing 243,000 and net immigration 95,000. Consequently, by the end of 1971 the population will be 3,113,000, of whom 2,647,000 will be Jews. The average annual increase will, thus, be 85,000 — about 3.1%: 2.7% for Jews and 4.5% for non-Jews. The Jewish population estimate is based on the assumption of some 132,000 immigrants during the period, and a continuation of the same tendencies as in the past in regard to natural increase of the various age and origin groups. The expected natural increase is 19.2 per thousand — some 70% of the total population increase, a much higher percentage than in the past.

In the distribution by continent of birth a considerable shift in favor of the Israel-born is expected. This will also affect the labor force participation rates, which will be discussed in the following section.

TABLE 14. Total Population and Population Aged 14 and Over, 1966-1971* (in thousands and percentages)

	1966	1967**	1971**	Rate of increase (per cent)		
				1966—67	1967—71	mean for 1967-1971
Total population	2629.2	2714.5	3070.3	3.1	13.2	3.1
Population 14 and over	1793.5	1864.0	2109.0	3.9	13.1	3.1

* Annual average.

** Including East Jerusalem.

Source: Central Bureau of Statistics.

(a) Immigration

In the past Israel's population grew mainly as a result of immigration, which contributed close to 65% of the Jewish population increase in 1948—1966. In the last few years, however, immigration has been accounting for an ever smaller share of the population increase as the number of immigrants has been declining steadily since 1965, while the natural increase has been growing (although only to a limited extent and with slight effect).

The development plan is based on an immigration of about 130,000 during 1968—1971. This is a small number compared with the influx in most periods before 1965. Most immigrants up till now have come because of difficult conditions in the countries where they lived, but few Jews are now likely to come to Israel for such reasons. Although conditions in various countries may change and impel Jews who are not now interested in emigration to leave and come to Israel, or enable others who want to come, but are prevented from doing so, to get up and go, such changes cannot be predicted in advance. The realization of the immigration estimate, therefore, depends on many more Jews from the free and prosperous countries settling in Israel. The Government is aware of the fact that for Jews who are well-established in other countries to come to Israel far-reaching changes are required, first and foremost in Israel's absorption policy, and perhaps also in other areas. To this end tax concessions, better housing facilities and other benefits for new immigrants have already been authorized.

b) Natural Increase

As immigration is expected to be less in the coming years than it has been in the past, natural increase will be the main factor in population growth.

The rate of natural increase of the Jewish population has been steadily declining since the 1950's, and the prospects are that this trend will continue in the future. If these forecasts are justified, the two factors combined will lead to a Jewish population growth lower than the rate to be desired.

The Government, therefore, appointed a committee to investigate the fertility problem, which published its conclusions in 1966. One of the main recommendations was to set up a body to deal with family matters. The committee further recommended publicity and the introduction of economic incentives such as regular allowances determined by the number of children, and housing aid. Though the recommendations are still at the discussion stage, several steps have already been taken in this direction, including income tax concessions and National Insurance Institute allowances for children of wage-earners and large families. These measures, however, primarily improve the standard of living of these families, and to encourage fertility more extensive and variegated action seems to be required.

3. LABOR FORCE

In 1966 the civilian labor force totalled about 943,000 and the participation rate was 36% of the total population — considerably less than in developed countries. This low participation rate was largely due to the fairly young age-structure of the population, but this explains only part of the difference. A further contributing factor is that a high proportion of young people serve in the Army — for a longer period than in most other countries. Another reason is the small amount of women in the labor force.

TABLE 15. Population Aged 14 and Over, by Labor Force Characteristics, 1966, 1967, and 1971

	1966	1967	1971
Population	1,794	1,839	2,109
Labor force	943	927	1,075
Labor force as percentage of population	53	50	51
Employed persons	874	831	1,032
Non-employed persons	70	96	43
Non-employed persons as percentage of labor force	7	10	4

Note: In 1967 changes were introduced in the Army's method of estimation. The 1966 figures have been modified accordingly, and the demographic estimates have been up-dated.

Source: Central Bureau of Statistics.

Labor Force Participation. The labor force participation rate is a function of the demand for labor, which is determined by, *inter alia*, the level of economic activity, and of the labor supply, which is determined by the size of the population of working age and its inclination to participate in the labor market. Different age and sex groups vary in the latter respect. Men, on the whole, are more inclined to go out to work than women. Among men, the highest labor force participation rate is found in the medium age-groups, and among women in the younger age-groups. However, even in homogeneous age/sex groups there are considerable variations between people from different continents, between natives of Israel and immigrants, old or new, and between Jews and non-Jews. These differences are particularly notable among the women.

It was assumed that the past labor force participation trends of the various age/sex and origin groups will continue during the period of the development plan, but that the general trend may be modified by changes in the relative proportions of these groups within the relevant population, as well as by changes in the level of economic activity.

During 1968—1971, the share of the 14—17 and 35—54 age-groups is expected to decrease, and that of the 18—34 and over-65 age-groups to increase. The proportions of Asian-African born and, above all, of the younger age-groups of the Israel-born are expected to increase.

The decreasing weight of the 14—17 age-group, whose labor force participation rate is affected by the school attendance rate and is therefore lower than the average for the total population, will contribute to a higher overall participation rate. During the next few years, two mutually contradictory trends are expected to manifest themselves in this age-group. On the one hand, the trend towards a higher school attendance rate within every origin-group is expected to continue. On the other hand, the higher proportion of those of Asian and African origin, whose school attendance rates are low, will keep the general school attendance rate at substantially the same level. Consequently, the labor force participation rate is also expected to remain constant at the same level as in the past few years.

The 18—34 age-group, which accounts for close to 40% of the adult population, is actually made up of two separate groups. Although no detailed statistics are available, it seems highly probable that the participation rates of the 18—24 age-group are lower than the general average, since this is the age of army service and study, while the rates for the 25—34 age-group are probably higher than the average and close to those of the 35—54 age-group. During the period of the development plan, the 18—34 age-group is expected to increase from 38% to 40% of the total population of working age, but since most of the increase will be in the 18—24 age-group the net result will be a lower participation rate. Nevertheless, it appears that the average participation rate of this age-group will remain substantially the same, since the rising labor force participation trend among women is expected to continue.

The 35—54 age-groups have the highest and most stable labor force participation rates, although the participation of women is lower than in the 18—34 age-group. During 1968—1971 these rates are expected to remain stable both among men and among women. The decline in the proportion of this age-group in the total population is expected to depress the average participation rate.

The labor force participation rate of the over-55 age-group is lower than in the developed countries, mainly because of the low female participation rate. The weight of women in this group is expected to increase slightly during the period of the development plan, so that its labor force participation rate will somewhat decrease. This trend, however, will be offset to some extent by an expected increase in male participation, as a result of longer stay in the country. While in the past this age-group consisted mainly of people who had arrived in Israel at an advanced age and could no longer be integrated in the labor market, more of its members in the future will be people who have been working in Israel from an early age and will continue to do so until they retire.

The over-65 age group is expected to increase in relative size during the period under review — which will have a downward effect on the average labor force participation rate.

The average total participation rate will probably be somewhat lower than during most periods in the past and is estimated at 51% of the population of working age in 1971.

4. EMPLOYMENT

The demand for labor of the various branches of the economy is a function of their output targets and the output per worker. The manpower demand forecast has been made separately for each branch, using its employment in 1966 as a base figure. The additional manpower required has been computed according to the projected incremental output and the expected increase in output per employee, which is influenced by the activation of idle production factors and the projected additional investment.

TABLE 16. Employed Persons in 1966 and Demand for Manpower in 1971, by Economic Branch (in thousands and percentages)

Branch	Thousands		Percentage		Rate of Increase, Per Cent	Increase in Thousands	Distribution of Increase, per cent
	1966	1971	1966	1971			
Total	874	1032	100.0	100.0	18.1	158	100.0
Agriculture	110	111	12,6	10,8	0,9	1	0,6
Industry, handicrafts, mines and quarries	221	276	25,3	26.7	24.9	55	34.8
Construction	76	87	8,7	8.4	14.5	11	7.0
Electricity, water and sanitation	18	20	2.1	1.9	11,1	2	1,3
Commerce, banking and insurance	114	133	13,0	12.9	16.7	19	12.0
Transport, storage and communications	58	73	6,6	7.1	25.9	15	9.5
Public, business and personal services	277	332	31,7	32,2	19.9	55	34,8

The total demand for manpower in 1971 is estimated at about 1,032,000 – 158,000 more than total employment in 1966. The projected demand obviously also depends on the supply, since manpower requirements were taken into account in setting the output targets.

In the past the employment structure was that of an economy producing mainly for the domestic market. The need for greater production for export was one of the main reasons for the policy of economic restraint adopted in the past two years. The object of the development plan is to reach a high level of employment, while at the same time bringing about a change in the employment structure. Table 16 shows that, during the period in question, industry, which has the main export potential, is expected to absorb close to 35% of the employment increase, so that its share in employment will grow from 25% to almost 27%.

Communications, education, and health services are also expected to increase their share in total employment, while the share of agriculture is expected to decline from close to 13% in 1966 to about 11% in 1971. The remaining branches of the economy are expected to maintain their relative shares in the total employment, with possible slight decreases.

Experience has shown that the adjustment of total manpower supply to total demand for labor is not enough to ensure a balance in supply and demand in all places and for workers of all grades. Almost throughout, there has been a shortage of certain types of workers and a surplus of others; some areas have had a fairly high level of unemployment and others have suffered from a shortage of working hands. One of the aims of the present plan is to attain a high employment level in all areas and prevent manpower shortages of all kinds, without prejudice to other long and short term economic targets. An attempt has therefore been made to estimate the demand for manpower at different levels of skill and training. A classification into five levels was accordingly made[20]: the university level; technicians (or those with post-secondary training); skilled workers; semi-skilled workers; unskilled workers. The semi-skilled and unskilled levels were combined, since the data available did not make it possible to distinguish between the two. Each level was subdivided by occupations, so that occupations and levels could be coordinated with the demand for the different types of training and education required. This, however, was not always possible since insufficient data were available.

The Population and Housing Census, 1961, served as a basis for these estimates. These data suffer from two major defects: firstly, the definitions used in the Census are not the same as those of the estimate, and although certain adjustments were made, this undoubtedly led to substantial deviations. Secondly, six years have passed since 1961 and the situation has no doubt changed considerably during this period. Whenever additional information was available the data were corrected and updated, but the supplementary material was not complete.

In several instances information obtained from Government departments responsible for various branches of the economy were used[21]; where such information was not obtainable, the forecast was based on various assumptions outlined below.

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[20] For a definition of occupational levels, see Appendix.

[21] Some of the data were taken from the Manpower Supply and Demand Forecasts drawn up by the Manpower Planning Authority of the Ministry of Labor in collaboration with the Economic Planning Authority.

The demand expected for workers at various levels of training in 1968 — 1971 will generally follow the trends which prevailed in previous periods, mainly in 1960 — 64, with an accelerated demand for the higher levels and a relatively declining demand for the lower ones. This trend will be particularly noticeable in a number of branches which are expected to develop at a rapid pace, so that a special manpower training effort will be required, as specified below.

5. LABOR DEMAND, BY ECONOMIC BRANCH[22]

(a) Agriculture

The forecast, prepared by the Ministry of Agriculture's Agriculture and Settlement Planning and Development Center, is based on the projected increase in output, by types of crops, and forecasted labor norms for each product. Employment is hardly expected to change, since increased labor productivity will supply the entire incremental output required. Thus by 1971 agriculture will employ some 111,000 workers, with a similar distribution, by occupation and level, to that of the past. This estimate is based on forecasts prepared previously by the Manpower Planning Authority in consultation with the Ministry of Agriculture. No special manpower problems are anticipated, although attention must be paid to the seasonal aspect of agricultural work, especially citrus harvesting and packaging, which is done exclusively during the four winter months and requires a considerable amount of manpower.

(b) Manufacturing, Mining and Quarrying

Employment in this branch is expected to rise rapidly from 221,000 in 1966 to 265,000[23] by 1971. Changes in the employment structure of the subsidiary branches of industry are expected to raise the demand for higher-grade workers, especially on the technical level. Particularly rapid growth is expected in the metal, machinery, electrical appliances and transport equipment industries, which employ a relatively high percentage of high-grade labor and are expected to account for over half the additional industrial employment. The development of export by science-based industries is expected to bring about a rapid growth in the demand for university-trained staff; industry as a whole will require an additional 2,000 graduates and 5,000 technicians. The development of these industries on the scale planned depends on the supply of the necessary manpower at the existing wage scales. Although the proportionate share of skilled workers is expected to decline, over 16,000 more will be needed than in 1966 — mostly in the metal, machinery, electric appliances and electronics industries. At the semi-skilled and unskilled level, the employment of about 28,000 additional workers is foreseen, but since no pressure on the labor market is expected, no national shortages are likely to occur, although some special efforts will be needed to assure better balances between the supply and the demand for different occupations among regions in the country.

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[22] East Jerusalem is not included because of lack of information on the occupational level of these workers.

[23] Not including 11,000 in East Jerusalem and persons employed in military industries.

(c) Construction

Employment in the construction industry went down rapidly in 1966/67 but began to revive slowly during the second half of 1967. The rise will apparently continue until 1971, when the industry will again employ some 85,000 workers, as in 1965, though its share in total employment will be no more than 8.5%. Here, too, a rapid rise is foreseen in the level of workers required. The proportion of college and technically trained staff is expected to go up from 9.6% in 1966 to 12.5% by 1971 — among other reasons because of improved building methods and increased mechanization.

(d) Services

Commerce, Finance and Insurance

In the past commercial, financial and insurance services, personal services and entertainment have been employing a fairly constant share of the total labor force, and are expected to maintain this trend. By 1971 they are expected to employ some 129,000 as compared with 114,000 in 1966. The level of training required will be only slightly higher than before.

Transport, Communications and Storage

This branch of the economy is expected to employ about 71,000 in 1971, as against 58,000 in 1966. The relatively rapid growth of shipping and aviation is expected to produce a rising demand for higher-grade workers, with a higher percentage of technicians in the total number employed.

Electricity, Water and Sanitation Services

These branches employ a small number of workers, and their influence on employment is therefore small. The percentage of high-level workers — university graduates and technicians — is relatively high, and will remain at a similar level in 1971. In this year the number of workers will reach 20,000

Public-Administrative and Governmental Services

This branch includes mainly the employees in the administrative units of the Government offices, civilian workers in the Defense system, as well

Health, Education, Welfare and Business Services

The labor requirements of these services is expected to grow from 142,000 in 1966 to 172,000 in 1971, i.e., by 21% compared with the projected growth of 15% in total employment. Particularly marked increases — 25% and 18% respectively — are expected in education and health services, while the staff of the welfare, religious, judicial and other public services is expected to grow at the same rate as the total population.

The forecast of educational staff required in 1971 was based on the projected pupil enrollment at the different types of schools. It was assumed that university-trained teachers will be required in higher and post-primary education, while in elementary schools they would at least have to be graduates of a teachers training college.

The projected increase in educational staff is still more striking in view of the fact that the population of school and university age is expected to grow much less than the total population. Despite this fact, the number of pupils will grow somewhat faster than the population of the relevant age-groups, in view of the expected higher school enrollment rates. Employment is also expected to increase because of the higher ratio between the size of teaching and other staff and the number of pupils expected in most schools, as well as the growing proportion of secondary and, especially, higher education, in which this ratio is always high. If the recommendations of the Prawer Commission on Education are implemented during the period of the development program, the demand for educational staff, especially of the higher grades, will be still greater.

The health personnel forecast was based on the population increase and on various assumptions relating to the standard and type of services required, as set out in the chapter on Health. These criteria also determined the level of workers required; on the assumption that doctors will be university graduates, and graduate nurses or technicians will be graduates of schools for these types of staff. An appreciable increase in staffs was foreseen in view of the mounting demand for health services that may be expected as the population grows older and the income level rises.

Health, education and business services employ a very high proportion of university graduates and people with post-secondary education. These two categories accounted for about 44% of total employment of these services in 1966 — close to 18% being academically and about 27% technically trained (on the post-secondary level). The standard of workers required by 1971 will be still higher: about 22% will have to be university graduates and about 34% technicians with post-secondary training.

These services will thus require a higher increment of academically and technically trained personnel than of employees generally, as owing to a shortage of qualified personnel — mainly teachers and nurses — many jobs were until now filled by less qualified people. In addition to the future increment of properly qualified nurses and teachers, a special effort should, therefore, be made to encourage the present unqualified staff to complete their training.

as workers in local councils, national institutions, parties and workers' unions. Civil servants constitute close to half the number of employees in this field. The branch employs a relatively high percentage of university graduates — more than 11% are academicians and more than 40% have some sort of post-secondary school training.

According to the plan, the demand for workers in this branch will increase by some 16% between 1966 and 1971 — slightly less than the population growth rate — and more high-level workers will be needed than in 1966. The branch will employ a total of about 73,000 workers in 1971, as opposed to 63,000 in 1966.

Personal services and recreation

On the basis of past trends it was assumed that the number of workers required for personal services and recreation in 1971 will be 80,000, as against 72,000 in 1966. They require a relatively low level of training, though this is expected to rise slightly during the period in question. The proportion of unskilled and semi-skilled workers in this field is extremely high, including household help and many of the other workers engaged in the personal service branch.

6. LABOR SUPPLY, BY LEVEL AND OCCUPATION

To find out to what extent the projected economic development might be subject to manpower limitations, an attempt was made to forecast the manpower supply by 1971 and its distribution by levels and occupations. In most cases the available information was not sufficient for detailed estimates on which a specific line of action for a given occupation could be based. Policy recommendations in the field of manpower training can only be made on the basis of further studies to be conducted in the future.

The forecast was based on the manpower figures for 1966, taking into account wastage due to death, retirement and emigration, and the increase from immigration and the output of the schools and the Army. Considering all these variables, an attempt was made to estimate the manpower structure by level and occupation. Another element — on-the-job training — could not be taken into account because it was impossible to estimate its quantitative effect. Hence the estimate probably suffers from a downward bias, which, however, applies only to the lower levels, since the higher levels can usually only be attained by formal training, and by definition a university graduate must have full university training.

The main changes in the manpower structure, by educational levels, expected between 1966 and 1971 are a rise in the proportion of the higher levels — university graduates and technicians — and a decline in the share of the semi-skilled and unskilled. The proportion of skilled workers is expected to remain constant.

The implications of the projected changes in manpower supply by level and occupation must be examined against the background of national manpower requirements.

7. MANPOWER DEMAND AND SUPPLY, BY EDUCATIONAL LEVEL AND OCCUPATION

Table 17 shows that demand and supply at the university level will more or less balance by 1971. At the technical level a considerable shortage seems in sight, while at the lower levels a surplus is to be expected, so that, as before, the majority of unemployed will be the poorly trained. Each of these levels, however, comprises a large number of occupations, so that even if the demand and supply in a given level is equally balanced, it does not yet mean that this is so for each of the occupations within that level.

TABLE 17. Labor Force, by Educational Level, in 1966 and Manpower Demand and Supply, by Educational Level, in 1971 (in 1,000)*

	1966			1971		
	Employment (1)	Supply (2)	Difference (2)−(1) = (3)	Demand (1)	Supply (2)	Difference (2)−(1) = (3)
Total	874	943	69	1,014	1,055	41
University graduates	47	48	1	64	65	1
Technicians and post-secondary graduates	74	75	1	108	94	(−) 14
Skilled workers	313	326	13	345	363	18
Semi-skilled and unskilled workers	440	494	54	497	533	36

* Not including East Jerusalem.

No data were available at the time of the forecast to enable the projected labor shortage or surplus of every occupation at each level to be examined in detail. It appears, however, that in certain occupations there will definitely be a shortage, which may decisively affect the implementation of the Development Plan. These are the metal, electricity and electronics trades at all levels. It therefore seems essential to carry out a detailed examination of manpower requirements and to design suitable training programs for the next few years.

8. UNEMPLOYMENT[24]

In 1967 there were 97,000 unemployed persons — about 10% of the total labor force. The unemployment rate has been going down, however, since the end of the first quarter of 1967. In the second quarter the pre-war emergency and the Six-Day War caused a decline in the numbers of both employed and unemployed. In the second half of 1967 there was a change in the trend of economic activity, which had been slowing down since the end of 1965. The increase in activity that followed the Six-Day War was accompanied by a slow but continuous increase in employment. During 1968-1971 economic activity is expected to increase at an accelerated pace, with a 9.2% annual rise in the Gross National Product. Growing aggregate demand and investments during the period are expected to create 200,000 additional jobs, so that the entire increment in the labor force — some 37,000 annually — and 54,000 of the unemployed can be accommodated, and unemployment will fall by 1971 to an average of 43,000 — about 4% of the total labor force.

There is some confusion about the meaning of the term "full employment." An employment level of 100% is impracticable and does not exist anywhere in the world, because even if the number of jobs available is equal to or higher than the number of people who want to work, there is still a certain level of structural or frictional unemployment causing a certain — generally low — percentage of the labor force to be unemployed. Structural unemployment is due to incomplete correlation between demand and supply of workers

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[24] The data in this section include East Jerusalem.

TABLE 18. Employed Persons by Occupation and Level, 1966 and 1971 (in thousands and percentages)*

	1966	1971	Rate of increase, percent	Increase in thousands	Distribution of increase, percent
Total	873.9	1,014.1	16.0	140.2	100.0
University graduates	46.7	63.7	36.4	17.0	12.1
Engineers and architects	8.1	10.4	28.4	2.3	1.6
Humanities and social sciences	13.7	16.8	22.6	3.1	2.2
Natural sciences	4.1	4.9	19.5	0.8	0.6
Law	4.5	5.4	20.0	0.9	0.6
Teachers	7.3	15.1	106.8	7.8	5.6
Doctors	7.7	9.7	26.0	2.0	1.4
Others	1.3	1.4	7.7	0.1	0.1
Technicians	74.1	108.2	46.0	34.1	24.3
Administrative executives	15.1	20.2	33.8	5.1	3.6
Technical occupations	13.8	22.2	60.9	8.4	6.0
Businessmen	2.5	2.7	8.0	0.2	0.1
Teachers	24.1	34.8	44.4	10.7	7.6
Nurses	12.2	21.4	75.4	9.2	6.6
Others	6.4	6.9	7.8	0.5	0.4
Skilled workers	311.6	345.5	10.9	33.9	24.2
Administrative staff	59.0	67.8	14.9	8.8	6.3
Craftsmen	121.2	158.5	30.8	37.3	26.6
Commercial agents and merchants	30.5	34.5	13.1	4.0	2.9
Communications and transport	15.1	11.8	- 21.9	- 3.3	- 2.4
Policemen, prison wardens and service personnel	8.7	10.2	17.2	1.5	1.1
Teachers	8.3	0.6	- 92.2	- 7.7	- 5.5
Nurses	10.6	4.6	- 56.6	- 6.0	- 4.3
Others	58.2	57.5	- 1.2	- 0.7	- 0.5
Semi-skilled and unskilled workers	441.5	496.7	12.5	55.2	39.4

* Not including East Jerusalem

in respect of occupation, training or geographical location. Frictional unemployment is due to the fact that it takes time to change jobs. Generally these two types of unemployment are interconnected and cannot be clearly distinguished.

The unemployment prevailing in Israel in 1966-67 was largely due to a low aggregate demand. During the period of the development plan the demand for labor is expected to increase, so that jobs will become available for a large number of people — though not in those branches of the economy where they had been working before, but in industries more profitable to the national economy — mainly those producing for export. This shift involves considerable difficulties and cannot be accomplished overnight. By 1971 there will thus still be some 43,000 unemployed, some of whom may be regarded as structurally or frictionally unemployed owing to the occupational structure of the labor force, the divergent geographical distribution of economic activity and population, and various institutional factors.

In the long range it is intended to reduce this number and to arrive at a better utilization of the available labor force. As stated, however, the changes and reforms required can hardly be accomplished during the period of the plan. In the interim, it will still be necessary to provide for the unemployed by means of relief work or unemployment grants, as at present, or by the introduction of unemployment insurance.

The main steps required to reduce residual unemployment are: coordination of training and educational programs with economic needs; adjustment of the geographical distribution of economic activity to the dispersal of the population (see chapter on Regional Distribution); and measures to facilitate labor mobility.

Adapting the training of the labor force to national development needs is one of the primary tasks of the educational system, which determines the level and occupational structure of the new labor force. Education can only affect the increment to the labor force, however. At a time when the demand structure is changing rapidly, while the labor force is growing slowly, the educational system cannot be relied upon to bring about the required changes in the occupational structure, and additional retraining programs must be instituted. This as well as other matters relating to labor mobility will be discussed below.

9. LABOR MOBILITY[25]

Mere numerical correspondence between supply and demand is not sufficient for the labor market to be properly balanced. A further essential condition for a well-regulated labor market is that workers may be easily shifted from places and occupations which are over-supplied to others that are undersupplied. A wise labor mobility policy sees to it that workers should be interested in making this shift to those jobs, occupations and areas which contribute most to the national economy.

In this context, a distinction should be made between three main types: occupational, geographical and job mobility.

(a) Occupational Mobility

Retraining is one of the main means to facilitate this type of mobility. In the limited sense of the term, this implies vocational training for adults who have been working in some other occupation. This is of particular importance in periods of considerable economic change, when the natural labor increase alone is not sufficient to supply the additional manpower required for new or changing industries.

Retraining is highly developed mainly in Western Europe. Israel has courses of a similar scope, which were attended in 1967 by some 7,000. Until now the courses were devoted mainly to the training of new immigrants and people lacking vocation.

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25) The recommendations on this subject are based mainly on the report, dated February 1967, of the Interministerial Committee for Examining Methods of Increasing Labor Mobility in Israel, appointed by the Minister of Labor.

During the period of the course the trainees received grants determined according to their economic and family status, regardless of the occupation they were learning — generally even less than they would earn by relief work. This method, which is designed to provide a bare subsistence level for the trainee and his family during the retraining period, is well suited for the unemployed, for unskilled new immigrants, or for immigrants whose former occupation is not useful under Israeli conditions. In the future, however, more stress must be laid on the retraining of people already working in Israel, including those with a fairly high level of qualifications, and a change in the grants system should be considered to bring it into line with the starting pay in the new occupation. The training center should also keep in touch with the graduates of the various courses and furnish them with additional material and information, so that they may be able to improve their vocational standards. Such a follow-up on the graduates' future careers will also make it possible to adapt the training program to actual requirements. Putting the trainees in touch with potential future employers, immediately upon enrollment or at some time during the course, may also serve this end and may induce employers to participate in the training costs. All these functions may well be undertaken by the State Employment Service.

In addition to operating such training centers, the Ministry of Labor, through its Employment Department, makes grants to enterprises in the development areas to cover the cost of training the unskilled. In expanding the scheme it might be worthwhile to consider specifying the amount of training to be given and the level of achievement to be attained under the scheme and instituting some form of control.

The training and retraining courses mentioned are usually sufficient only for teaching a very specific trade at a rather elementary level. They usually provide for a full day's study over a period of 7 months, on the average varying with the occupation in question, and the graduate as a rule reaches no more than the level of a semi-skilled or skilled worker.

(b) Geographical Mobility

Changing jobs frequently means changing one's place of residence. Since many people in Israel own their own homes, they usually have to buy a new dwelling and sell the old one, which may not be easy and may take a long time. Payments are required to register the property in the Land Registry, to obtain the communal landlord's consent, etc. It may be worthwhile considering a reduction in these compulsory payments to make it easier for people to change jobs. The steps the Government is taking to encourage the construction of rental housing are also likely to work in this direction. For measures designed to encourage people to take up jobs in the development areas, see under Regional Distribution.

c. Job Mobility

Continuity of Workers' Rights

At present, when a person leaves a job at which he has been working for a year or more he loses certain financial rights proportionate to the length of time he has been working with the same employer, including pension and provident fund rights, paid annual leave (in addition to the two weeks to which every worker is legally entitled), recuperation allowance and sick pay. The more such rights an employee has accumulated, the higher the recompense he will require before he is interested in leaving his job. To facilitate job mobility, it therefore seems necessary to make these rights less dependent on continued employment at one particular place of work. This can be done by setting up a central fund covering all employees' rights — pension rights, severance pay, leave pay and the like — regardless of where they work. In this way the rights an employee has accumulated in the course of his work are not affected if he leaves his job. Once the employee knows that these rights are not dependent on his staying he may be more prone to change his job.

At present there is a large variety of schemes covering employees' rights. The General Federation of Labor (Histadrut) alone has seven pension funds, which for a number of years have been operating provisions to assure the continuity of rights acquired under them. About half of all employees are insured in these funds. These provisions, however, do not apply to other pension schemes. Civil servants, for instance, as a rule lose pension rights when they leave the employ of the Government, and the same is true for other employers who are not covered by the Histadrut pension schemes. These funds, moreover, do not cover many types of employees' rights — other than pensions and disability allowances — which may be lost by moving to a different job.

Ensuring continuity of employees' rights may be a partial interim solution until the proposed fund is set up — which may take a long time — but cannot be regarded as a substitute for such a fund.

In order to facilitate labor mobility, it is also worthwhile considering the introduction of an unemployment insurance system, which would somewhat alleviate the fear of temporary unemployment while looking for a better job. This insurance can also be carried out through the proposed fund. The Government has set up a public commission of experts to examine various possible systems of unemployment aid.

Annual Leave, by Age

According to the Annual Leave Law (Amendment 2) — 1965, the period of annual leave is determined according to the number of years a person has been working in a given enterprise. If, instead, the length of annual leave is made a function of age, a change of jobs will involve no loss of vacation rights. To prevent younger workers being preferred to older ones because of their lower vacation rights, an equalization fund could be set up into which the employer would pay an equal annual amount for every employee entitled to leave, the employees receiving their leave pay from the fund. This would also improve the working conditions of new immigrants, who otherwise receive no compensation for the seniority they have in giving up their jobs abroad.

10. FORECAST FOR 1978

By 1978 Israel is expected to have a population of 3.6 million, provided that some 300,000 immigrants will have come in by then — mainly from Western countries. During this period the population is thus expected to grow by 890,000, with close to 1.3 million participating in the labor force. This means that jobs will have to be provided for 450,000 additional people. Here the main problem is to provide them with such jobs as allow a high standard of living and at the same time help the country to become economically independent.

APPENDIX

CLASSIFICATION OF MANPOWER BY OCCUPATION AND LEVEL OF TRAINING FOR PURPOSES OF SUPPLY AND DEMAND FORECASTS

A classification of manpower by principal occupations and levels of training is given below. The purpose of this classification is to serve as a basis for forecasting the future demand for manpower in the various branches of the economy, by level and occupation, so as to be able to make plans for the necessary supply.

A classification into five main levels of education and training has been adopted: university graduates, technicians or post-secondary graduates, skilled workers, semi-skilled workers and unskilled workers. The criteria for the level needed for a given job are a number of alternative formal educational and training requirements, replaceable to a varying extent by suitable on-the-job experience and training. While some occupations are compatible with only one level, others may be included in several levels according to the standard of formal training and/or experience required by the job in question. Managers and foremen have also been included in the classification by level.

A. Definition of Levels of Education and Training

1. Academic

Jobs that require a university or college education of at least B.A. or B.Sc. level, i.e., at least three years' study at a recognized institution of higher learning.

2. Technical or Post-secondary

Jobs that require graduation from a recognized technical school with a total of 13 1/2 – 14 years' study (including previous schools) or equivalent on-the-job experience and training; or graduation from a teachers' or kindergarten teachers' college, provided this follows 12 years' prior study.

3. Skilled

Jobs that require graduation from one of the following training programs or on-the-job experience and training:

a) Jobs that require at least 11 years' education.

b) Graduates of 3-4 year vocational or industrial schools, including drop-outs after the third year of 4-year vocational schools.

c) Graduates of 3—4 year vocational training programs under the apprenticeship scheme, including "guided" apprenticeship, in certain narrowly specialized occupations.

d) Graduates of the Ministry of Labor's vocational training courses in narrowly specialized occupations (who may, in the view of the framers of the classification, be regarded as skilled workers).

e) Graduates of at least one-year pre-service training programs operated by the Army (assuming at least 10 years' prior study), or graduates of similar courses during Army service who have had a further practical training period in the Regular Army.

f) Graduates of adult on-the-job training programs in specific industries, e.g., diamond polishing.

e) Graduates of recognized senior two-year courses in administration (assuming at least 10 years' prior study).

4. Semi-skilled

Jobs that require attendance at one of the following training programs:

a) Formal vocational training schemes:
  1) Graduates of 1—2 year boys' vocational schools, including youth centers.
  2) Graduates of certain vocational training courses of the Ministry of Labor.

b) On-the-job training programs
On-the-job training at a given job for at least 6 months.

B. Classification of Occupations

1. Occupations at the Academic Level

Architects (including town planners)
Civil engineers (including construction, hydraulic, road, sanitary, agricultural engineers, etc.)
Chemical engineers
Mechanical engineers (including metallurgical, production, nuclear engineers, etc.)
Scientists (academic staff in natural sciences, including mathematics, physics, geology, chemistry, biology, etc.)
Physicians (including physicians, dentists, veterinarians, pharmacists)
Agronomists
Academic staff in applied social sciences and administration (including economics, statistics, accountancy, auditing, law, business administration, librarianship, social work)
Academic staff in pure social sciences and the humanities (including rabbis)
Academic-level teachers

2. Occupations at the Technical or Post-secondary Level

Elementary school and kindergarten teachers (with a level of qualifications similar to that of teachers' training college graduates)

Graduate nurses
Surveyors (cartography, photogrammatics)
Medical technicians (X-ray, dental, sanitation and other medical technicians)
Medical laboratory staff
Chemical and food technicians (including industrial and laboratory technicians)
Metal technicians (including machinery and agricultural equipment)
Production technicians
Electric technicians
Electronics technicians (including telecommunications)
Construction technicians (including all branches of civil engineering)
Architectural technicians
Textile technicians
Naval and airplane technicians (officers)
Agricultural technicians (mainly instructors)
Product design technicians (industrial design)
Opticians
Wood technicians
Certified accountants
Technical foremen
Other occupations at the technical level

3. Occupations at the Skilled Level

Metal trades (including metal machining, turning, mechanical processing, toolmaking, construction work, metal-sheet work and plumbing)
Fine mechanics, instrumentation (including building and maintenance of technical, electrical, optical, hydraulic instruments, watchmaking, etc.)
Mechanics (including agricultural, vehicle, electricity, diesel, airplane and naval mechanics)
Electricity (including refrigeration and air conditioning)
Woodwork (including joinery, cabinet-making and building carpentry).
Printing (including industrial and photographic laboratory assistants)
Diamonds
Construction
Heavy mechanical equipment operators
Leather and furs
Surveyors
Tourist guides and travel agents
Public transport and heavy equipment drivers
Fashion and tailoring trades (including individual dressmaking, garment manufacturing, weaving with manual or mechanical looms)
Applied arts (including ornamental craftsmanship, ceramics, graphic arts, fabric printing, embroidery, woodwork, goldsmithing, art photography)
Domestic science and dietetics (mainly commercial — including hotel trades and waiters)

Administration (including bookkeepers, secretaries, computer program
  business administration)
Skilled farmers
Skilled administrators and foremen
Other occupations at the skilled level

4. Occupations at the Semi-skilled Level

The occupations included in this level have not been specified becaus they require a relatively short training period, which is generally specifi to a particular industry.

5. Unskilled Workers

[illegible] share of gross investments in the gross national product and in the national resources varied from year to year. On the average, investments accounted for about 23% of total resources[1] during 1951–1966. As may be seen from Table 1, the ratio was not dissimilar to that found in other countries. The share of gross investments in the Gross National Product was higher than in most countries and stood in this period at 37%.

[illegible] as 23% of the total resources could be diverted to investments, while maintaining a constant expansion of private and public consumption and exports, as a result of the extensive capital import that took place throughout the period [illegible].

[illegible] 1965, as a result of the Government's policy of economic restraint and other factors, the volume of investments [illegible] by one-fifth in 1966, and by one-fourth in 1967. Last year the public [illegible] only 6.% of the total in 1964, which was a record year [illegible] gross investments [illegible] share of investments in the Gross National Product [illegible] in 1964 to [illegible] in 1965, 21% in 1966 and 16% in 1967. [illegible] Italy [illegible] Great Britain [illegible] Germany and the USA.

2. Encouragement of Investments

In order to [illegible] the country's productive capacity, reduce dependence on foreign capital imports and raise the standard of living, extensive investments were required in [illegible], infrastructure, housing and social welfare. The Government, accordingly, took steps to encourage investments from both internal and external sources. These [illegible], however, a number of difficulties which deterred investors, above all foreign investors. Although on the whole the effect of the Arab boycott and Israel's precarious security situation was slight, some firms, especially those operating in the Arab States, refrained from investing in Israel. Further deterrents, apparently, were the distance from external markets and Israel's limited domestic market.

The Government's chief means to encourage investment and [illegible] the first laws passed by the Knesset, was the Law for the Encouragement of Capital Investments, dated March 1950. The object of this law, as set out in the preamble, was "to attract capital to Israel and encourage economic initiative and foreign and local investments" for the purpose of:

(a) "the development of the country's productive capacity, the rational exploitation of its resources and the full utilization of the productive capacity of existing enterprises;

(b) "improvement of the balance of payments, the reduction of imports and the expansion of exports."

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[1] Gross national product plus import surplus.

Chapter 3. INVESTMENTS

A. INVESTMENTS IN THE YEARS 1950—1967

1. The Share of Investments in Israel's Gross National Product and Resources

Israel's dynamic economic development would not have been possible without extensive investments which led to a rapid increase in the capital stock. During 1950—1967 investments totalled IL 32,275 million (at 1966 prices) including IL 10,650 million invested in housing, IL 21,185 million in various branches of the economy and IL 1,490 million in inventories.

TABLE 1. Share of Investments in Total Resources and Gross Per Capita Investment in Israel and Selected Countries
(in US dollars)*

	Gross investment as percentage of resources, 1955–64	Gross per capita investment		
		1960	1965	mean for 1960–1965
Sweden	23	405	632	494
USA	18	414	548	457
Norway	—	379	523	456
West Germany	26	356	553	449
Finland	—	336	510	410
Israel	23	317	396	352
France	19	279	421	349
Holland	28	266	399	318
Great Britain	17	252	343	285
Austria	26	250	339	284

* At the official rates of exchange.
Sources: National Accounts Statistics, 1955—64. International Financial Statistics (July, 1967).

The share of gross investments in the gross national product and in the national resources varied from year to year. On the average, investment accounted for about 23% of total resources[1] during 1955—1964. As may be seen from Table 1, the ratio was not dissimilar to that found in other countries. The share of gross investments in the Gross National Product was higher than in most countries and stood in this period at 27%.

As much as 23% of the total resources could be diverted to investments, while maintaining a constant expansion of private and public consumption and exports, as a result of the extensive capital import that took place throughout the period under review.

Since 1965, as a result of the Government's policy of economic restraint and other factors, the volume of investments has declined: slightly in 1965, by one-fifth in 1966, and by one-fourth in 1967. Last year the gross investment was only 61% of the total in 1964, which was a record year with gross investments of IL 3,123 million (at 1966 prices). Consequently, the share of investments in the Gross National Product went down from 32% in 1964 to 28% in 1965, 21% in 1966 and 16% in 1967.

The efforts made to increase the capital stock may also be gauged from the per capita gross investment. As seen from Table 1, per capita investment during the six years 1960—65 was, more or less, the same as in several Western countries. It was higher than in Austria, Holland, France and Great Britain, and lower than in Norway, Sweden, West Germany and the USA.

2. Encouragement of Investments

In order to absorb immigration, increase productive capacity, reduce dependence on foreign capital imports and raise the standard of living, extensive investments were required in production facilities, infrastructure, housing and essential welfare. The Government, accordingly, took steps to encourage investments from both internal and external sources. There were, however, a number of difficulties which deterred local and, above all, foreign investors. Although on the whole the effect of the Arab boycott and Israel's precarious security situation was slight, some firms, especially those operating in the Arab States, refrained from investing in Israel. Further deterrents, apparently, were the distance from external markets and Israel's limited domestic market.

The Government did much to encourage investment and one of the first laws passed by the Knesset was the Law for the Encouragement of Capital Investments, dated March 1950. The object of this law, as set out in the preamble, was "to attract capital to Israel and encourage economic initiative and foreign and local investments" for the purpose of:

(a) "The development of the country's productive capacity, the efficient exploitation of its resources and the full utilization of the productive capacity of existing enterprises."

(b) "Improvement of the balance of payments, the reduction of imports and the expansion of exports."

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[1] Gross National Product plus import surplus.

(c) "The absorption of immigration, the planned dispersal of the populatio over the territory of the State and the creation of new sources of employment."

Since the Law was first passed, it has been amended several times. Th amendments were mainly designed to facilitate its implementation, to confer greater benefits on potential investments by way of grants and direct and indirect tax concessions, and to simplify investment procedures.

The Law was made applicable to the erection of a new enterprise, the full or partial expansion of existing enterprises, and the establishment, expansion or acquisition of the whole or part of assets by foreign residents in foreign currency. It also applied to investments in local enterprises, both in local and in foreign currency. To help potential investors, an Investment Center was set up to handle all matters connected with investmen projects, to examine according to predetermined criteria whether they fulfil the provisions of the Law, and to decide whether the investment merits the status of an "approved enterprise" or "approved investment" and is thus entitled to the benefits conferred by the Law.

Under the Law for the Encouragement of Capital Investments of 1950 and the amendments introduced in 1955, an "approved enterprise" enjoyed various income tax and property tax concessions, exemptions from customs duties and relief from other taxes. Certain restrictions on the import of equipment were waived and the enterprise was entitled to repatriate both profits and principal within a given period of time.

The Law was again amended in 1959, to provide for still greater incentives for capital investment. Restrictions on the amount of profits that could be repatriated were removed and approved investments were entitled to write off their assets at an accelerated depreciation rate. The Law was made applicable not only to investments in specific enterprises but also to investments in securities, in order to promote the activity of the local stock exchange. A further amendment passed in 1959 provided that an approved investment was entitled to all the concessions of the Law and no exceptions could be made.

In addition to the special concessions granted to approved enterprises under the Law for the Encouragement of Capital Investments, all industrial enterprises were given certain facilities, mainly in the form of low-interest loans, which until 1956 were not linked to the rate of exchange or to the consumer's price index. These loans gradually came to amount to 65% or more of total fixed capital investments. Investors were, moreover, able to rent at low cost industrial buildings set up in development areas, where the Government also participated in labor training costs.

During most of the period, imported equipment was exempt from customs duties and part of the assets could be imported at a low effective rate of exchange. In some instances, the Government promised investors not to allow competitive imports of the items produced by them or the establishment of additional enterprises of the same type for a given period of time.

At the beginning of the 50's, the main industrial development effort was directed towards increasing physical production capacity in order to improve the balance of payments and provide employment in the developme areas. This led to the establishment of several industries whose productio costs were higher than the international market price but which continue to exist by virtue of administrative or customs protection. There was also a trend to prefer the establishment of new enterprises over the expansion of existing ones in order to industrialize the development areas. This frequently led to the erection of new plants in industries which already had considerable excess production capacity. In the 60's, on the other hand, a growing proportion of investments was channelled into expansion of existing enterprises.

In 1963 a new policy was formulated regarding the implementation of the Law for the Encouragement of Capital Investments. The approval of new enterprises and expansion schemes was made more selective. The purpose of this new policy was to give priority to enterprises oriented towards export and to plants erected in the development areas. The following new criteria were, therefore, set up for the approval of investments under the amended Law:

1. Only enterprises exporting 50% of their output or set up in development areas qualify for the status of an approved enterprise.
2. Only schemes for the expansion of an existing enterprise by 50% or more are approved, provided half the added output is exported. In development areas, 33.3% expansions are also approved without any export requirement.

As may be seen from Table 2, there has been a substantial increase in plants for export and new or expanded industries in the development areas since the amendments to the Law in 1963.

TABLE 2. Approved New Enterprises and Expansions and Proportion of Plants Producing for Export or Located in Development Areas

Year	Approved new enterprises or expansions	Conditions of Approval for export production (percentage)	Location in development areas (percentage)[1]
1962	119	32	52
1963	138	62	54
1964	139	73	47
1965	113	70	60
1966	129	62	69

1) In 1959–1966 development areas were generally defined as follows: in the South – the area south of Yavneh; in the North – the area east of a longitudinal line passing through Shelomi.

Source: Investment Center.

As a consequence of the decline in investments during 1965–1967, additional changes were introduced in the Law in 1967. These amendments were particularly designed to encourage investments in industry and hotels. The main additional benefits are further tax reliefs and a financial grant varying with the amount invested (given exclusively to industrial enterprises). To stimulate investment in the development areas, the grant and loan ceiling in relation to the sum invested is higher than in other areas, and loans are granted at lower interest rates.

The Government also made efforts to encourage local investments by expanding credit and diverting it to the private sector, both for business and for housing purposes. This was reflected in the operations of the mortgage banks, most of whose loans are Government-regulated, as set out in the Chapter on Construction and Housing. Housing credit, frequently extended at less than the market rates, pushed up the demand for housing and, consequently, the investment in housing.

By expanding credit, the Government also financed part of the private investment in other branches of the economy. Until 1952 credit expansion was carried out through loan provisions in the development budgets. Since then, however, more and more of the investment credit has been financed from foreign sources — the American Import-Export Bank, the World Bank, German Reparations payments, Israel Bonds and other long-term foreign loans.[2]

Other means of encouraging local investments were the protection of domestic production, and Government support for exports. The Government maintained low effective rates of exchange for the import of investment assets, other than building materials, and high rates for the import of consumption goods; both were intended to encourage investments.

3. Investments, by Branch of the Economy

a) Investment in Housing

From 1950 to 1967, IL 10,650 million (at 1966 prices) were invested in housing, with annual averages of IL 2,440 million in 1950—1954, IL 486 million in 1955—1959, IL 750 million in 1960—1964 and IL 760 million in the last three years. From 1960 to 1965 investments in housing (at 1966 prices) jumped from IL 537 million to IL 974 million in 1965 and then fell steeply to IL 525 million in 1967.

The share of housing investments in the total fixed investment[3] went down from about 41% at the beginning of the 50's to about a third in the middle 50's and remained at this level until 1965. When investments in general, and investments in housing in particular, fell off sharply in 1967, the share of investments in housing in the total of fixed investments diminished still further to 27%.

Compared with other countries, an unusually large proportion of Israel's Gross National Product and investments was applied to housing (see Table 3).

So high a proportion of investment went to housing in the early years of the State because of the needs of the vast numbers of immigrants who had to be housed. Immigrants' housing was also built in subsequent years but its relative importance declined. Other factors, e.g., personal restitution from Germany, rising real per capita income and expanded mortgage and general credit, continued to make housing a major investment item.

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2) For further details, see chapter on Capital Imports.

3) For a detailed discussion, see the chapter on Construction and Housing.

TABLE 3. Housing Investments as Percentage of Total Investment in Fixed Assets in Israel and Other Countries, at Selected Periods
(percentages)

	1950-54	1955-59	1960-65
Israel	41	34	33
Italy	19	29	31
USA	27	29	27
France	20	25	27
Sweden	25	26	24
Great Britain	23	19	19
Denmark	18	17	19
Holland	20	20	18
Austria	21	19	18
Norway	18	17	15

Sources: Israel - Central Bureau of Statistics and Economic Planning Authority.
Other countries: Annual Bulletin of Housing and Building Statistics for Europe (for respective years).

b) Investments in Other Branches of the Economy[4]

During 1950—1967 investments in other branches of the economy, i.e., excluding housing, totalled over IL 21,000 million (at 1966 prices)—with an average annual increase of 4.5% during the period. During 1950 — 1964 the annual rate of increase was 8.3%. During 1950 — 54 an average of IL 690 million was invested annually; during 1955—59 an annual average of IL 960 million, during 1960—64 IL 1,570 million, and in the past three years an average of IL 1,690 million. These averages obscure the sharp rise from 1960 to 1965 and the marked declines in 1966 and 1967.

From 1948 to 1967 over IL 3,400 million (at 1966 prices) were invested in agriculture, constituting about 14% of the total (except housing). The share of agriculture was particularly high during the first few years, when it accounted for about a quarter of the total investment, but went down to about 8% towards the end of the period. So much of the investment went to agriculture in the beginning of the period because the fast growing population had to be supplied with farm produce and various parts of the country were being newly settled.

About IL 1,500 million (at 1966 prices) were invested in the development of water resources and irrigation — close to 7% of the total investment during 1950—1967. This development took place both at the local and regional level, including drillings, construction of reservoirs, catchment of floodwater, etc., and on a national level, where most of the investments were in the Yarkon-Negev pipeline and the National Water Carrier. These two combined projects were intended to transfer water from the North of the country to the South. The Yarkon-Negev pipeline was built in 1952—56 and the National Water Carrier in 1956—64.

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[4] For a detailed disccusion of the investments in each branch see the respective chapters.

Investments in industry and mining generally averaged about a quarter of gross investment in the various branches of the economy. However, the recession in economic activity during the past two years has curtailed their volume and relative proportions[5]. Since 1950 these investments have amounte to IL 5,500 million (at 1966 prices); during 1950—54 an average of IL 210 million, during 1955 —59 — IL 240 million, and during 1960 — 67 — about IL 400 millio was invested annually. Most of the investments in the past ten years were made in mining, non-metallic minerals, food, textiles, chemicals, and in oil refining. Some IL 583 million were invested in mining and quarrying from 1955 until 1967.

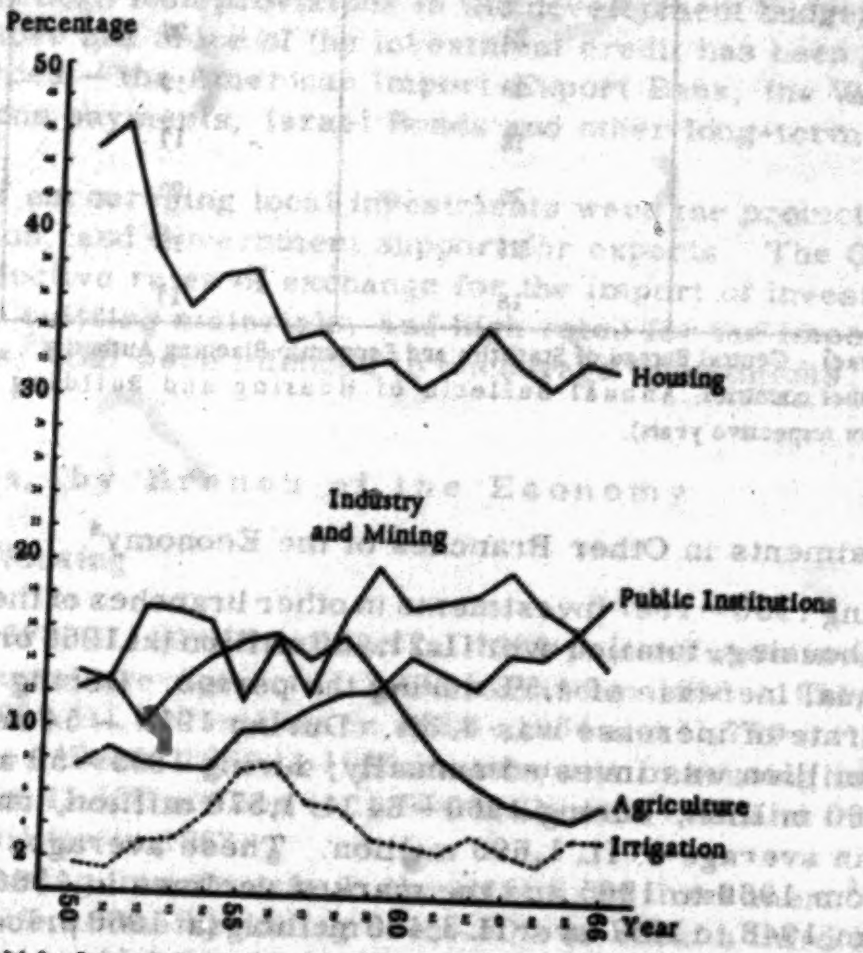

DIAGRAM 1. Investments by Categories as Percentage of the Total Investment in Fixed Assets

During the entire period IL 1,250 million were invested in electricity, i.e., power stations, transformers and distribution networks, etc. Most of the present power stations were built after 1948 — over half of them, which supply the major part of the electricity consumption in the 60's. By 1959 three production units were established in Ashdod; during 1959 — 1964 the Haifa II and the Ashdod II stations were constructed, and in 1965 a combined power and water desalination plant was set up in Eilat.

Transportation and communications investments go to sub-branches such as: airports and harbors, telecommunications, roads, vehicles and oil pipelines. The total investment since 1948 amounts to about IL 5,000 million (at 1966 prices). As a result the vehicle fleet was substantially expanded, a considerable merchant marine was launched, and a national airline was developed. It should be noted that investments in this sector rose from 18 % of the total at the beginning of the period to 29 % in 1967.

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[5] For a detailed discussion see the chapter on Industry.

TABLE 4. Investments by Branch of the Economy, 1950-1967*

	1950-54	1955-59	1960-64	1965-67	1950-67	Percentage distribution in 1950-67
Agriculture	628	1056	894	428	3007	14
Water and irrigation	405	266	526	219	1417	7
Industry, mining and construction equipment	1055	1192	2131	1091	5469	26
Of this:						
Mining	• •	(136)	(311)	(136)	(583)**	
Electricity	178	440	346	292	1257	6
Transportation and communications	626	874	1912	1458	4869	22
Business, hotels and personal services	171	161	421	273	1028	5
Public institution (services)	395	800	1630	1316	4141	20
All branches (except housing)	3458	4790	7860	5078	21185	100
Housing	2198	2431	3748	2276	10652	
Total investment in fixed assets	5656	7221	11607	7354	31837	
Investment in inventories	220	403	643	171	1437	
Total gross domestic investment	5876	7624	12250	7525	33274	

Source: Central Bureau of Statistics.

* Figures rounded to the nearest million.

** For the period 1955—67.

Investments in commerce, hotels and personal services amounted to IL 1,000 million (at 1966 prices) and grew at an average rate of 5% per year. They constituted some 5% of the total investment apart from housing. A particularly high proportion went to hotels, especially during the 60's, when many tourist hotels were erected.

Investments in public institutions rose at an average rate of 10% annually — more than in any other economic sector. Indeed, their share of total investment (except housing) grew from 14% in 1950 to 18% in 1958, 21% in 1960 and 26% in 1967. The marked increase in the proportion of investments in public institutions was designed to expand the scope and raise the standard of public health, education, administrative and other services at a time of enormous population growth. Since 1950, IL 4,100 million (at 1966 prices) have been invested in this sector.

4. Investments, by Type of Asset

The main trend in the composition of investments during the whole period has been a decline in the relative share of construction, while investments in equipment have been on the upgrade. In the early 50's, construction (including ground levelling, earth removal and the like) accounted for 60% of total investment in the various economic sectors. By the end of the 50's it accounted for only slightly more than half, and since 1961 for slightly less than half of total investment, except in 1967, when it went up to 52% because of a still more pronounced decline in the amounts invested in equipment. Among the reasons for this trend were the decline in the proportion of investment in agriculture, where the building and earthworks component is high, and the shift towards more capital-intensive production.

TABLE 5. Total Gross Investment in Fixed Assets (except Housing), by Type, in Selected Years* (Percentages)

	1950	1955	1960	1965	1967
Structures	57	56	51	48	52
Equipment	43	44	49	52	48
Total	100	100	100	100	100

* Computed from data at current prices.

5) Investments by Investing Sector[6]

The public sector is responsible for the main infrastructure investments, e.g., harbors, roads, national and regional water-works, Government office buildings, etc. Most of the investments of Government business enterprises are in postal services, railroads and the like, which are also infrastructure investments. Political, social and security considerations affect these two types of investments.

Public companies invest in projects in which the private sector generally does not engage. A considerable part of them may also be regarded as infrastructure investments and the considerations governing them are frequently similar to those relating to other public sector investments. The public companies engage mainly in mining and quarrying, the generation of electricity, shipping and aviation.

[6] With respect to investments in branches other than housing, the investing sector is defined as the sector that buys the capital goods, i.e., their ultimate owner. With respect to housing investment, the breakdown as between public and private ownership is determined according to the sector that initiates the building.

The public sector comprises: (a) General Government, the National Institutions and the local authorities; (b) business enterprises owned by the Government and the local authorities, such as postal services and railroads; and (c) public companies, i.e., which are owned by the public sector.

Private sector investments are defined as the total investment less public sector investments.

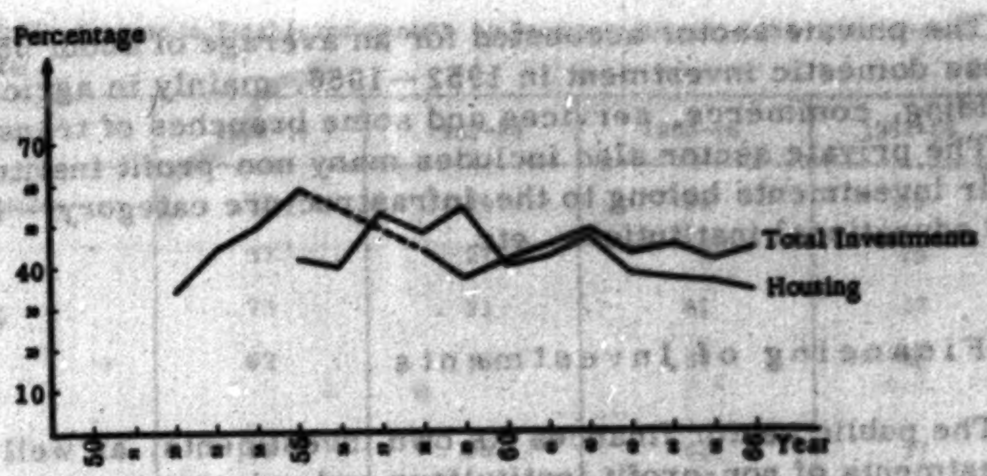

Diagram 2. Share of Public Sector in Gross Investments, 1950–67 (percentages).

TABLE 6. Gross Investment in Fixed Assets, by Investing Sector, 1952–1966 (Percentages)

	1952	1954	1958	1960	1962	1964	1966
Public sector	34	50	45	41	48	43	41
Private sector	66	50	55	59	52	57	59
Total	100	100	100	100	100	100	100

Source: For 1952–1954: D. Patinkin: Israel's Economy during the First Decade, Table 32, p. 80.
For 1956–66: Annual Reports of the Bank of Israel.

Note: For the years 1955-57 there are not reliable data.

During 1952 — 1966 the public sector accounted for 34 — 57 % of total gross domestic investments.

During 1955 — 1962 the private sector accounted for 47 — 60 % of the investment in housing. From 1963 until the end of the period under review, its share went up to about two-thirds of the total investment in housing. From 1965 until 1967 public sector investments in housing went down faster than private sector investments, which brought the share of the private sector up to 70 %.

TABLE 7. Investment in Housing, by Initiating Sector in Selected Years (Percentages)

	1955	1960	1965	1967	Total 1955–67
Public sector	42	40	36	30	44
Private sector	58	60	64	70	56
Total	100	100	100	100	100

Source: Calculated from data of Central Bureau of Statistics.

The private sector accounted for an average of about 55% of the total gross domestic investment in 1952—1966, mainly in agriculture, industry, building, commerce, services and some branches of transportation.

The private sector also includes many non-profit institutions. Most of their investments belong to the infrastructure category — health, research and educational institutions, etc.

6. Financing of Investments

The public sector finances its own investments, as well as part of the investments of non-profit institutions and private companies. The Government also finances a considerable part of housing investment. In addition to direct equity investment, the private sector is financed by direct or indirect loans (through the banks) or by grants. The size and terms of the participation of the public sector in private investments depend on the priorities laid down by the Government, either for economic reasons, e.g., promotion of exports, or for other reasons, e.g., the more balanced distribution of the population between the development areas and the coastal strip.

The influence exerted by the public sector, and above all by the Government, on the distribution of investments is greater than its share in loan or grant financing. This is due to the large role of the Government in financial institutions which grant investment loans. These institutions recruit much of their capital from or through Government sources, such as the provident funds, and from foreign funds. At the beginning of the 50s the rate of the public sector's participation in the financing of investments was fairly high, amounting to two-thirds of the total. In 1958—1959 its share went down to about 53%, and in 1960—66 to 43%.

During 1958—66, the Government played a particularly prominent role in financing investments in agriculture and irrigation.

Compared with other branches of the economy, the public sector played only a minor role in industrial investments, of which about a quarter were financed by the public sector during 1958—66. In contrast to agriculture and irrigation, the public sector's participation in financing industrial investments declined throughout the period from 37% in 1958—59 to 27% in 1960—64 and 9% in 1965—66. Some of this apparent decline is not real; it is due to the establishment of the Industrial Development Bank, through which the Government financed a part of industrial investment.

It should be noted, however, that the public sector had a relatively high share in financing plants for export and industrial projects in development areas.

During 1958—66, the share of public finance in mining and electricity investments was subject to considerable fluctuations, and stood at about 37% and 30%, respectively.

Close to 60% of transport investments were financed by the public sector, most of them directly, for such items as roads, harbors, postal services and aviation.

Close to half the investment in commerce and services was also financed by the public sector, mainly direct public sector investments and non-profit institution investments. The public sector provided the financial resources for 36% of the investment in housing, and its relative contribution remained constant throughout the 60s.

TABLE 8. Share of Public Finance in Total Investments*, by Economic Branch, 1958—1966 (Period Averages; percentages)

	1958-59	1960-64	1965-66	1958-66
Agriculture and irrigation	73	84	89	83
Industry	37	27	9	25
Mining and quarrying	73	21	41	37
Electricity	62	18	30	30
Transport and communication	64	53	63	57
Commerce and services	52	47	46	48
Housing	44	34	35	36
Total	53	43	43	45

* Including direct public sector investments, and investments loans granted directly or through financial institutions, but not including investments of public companies.

Source: For 1958—59: Annual Report of Bank of Israel, 1965.
For 1960—66: Annual Report of Bank of Israel, 1966.

7. Investment Fluctuations

Investments in the various branches of the economy and in housing fluctuated considerably during 1950—67, owing to: 1) fluctuations in economic activity and in the expectations of potential investors; 2) the varying amounts of public funds directed to investments in housing.

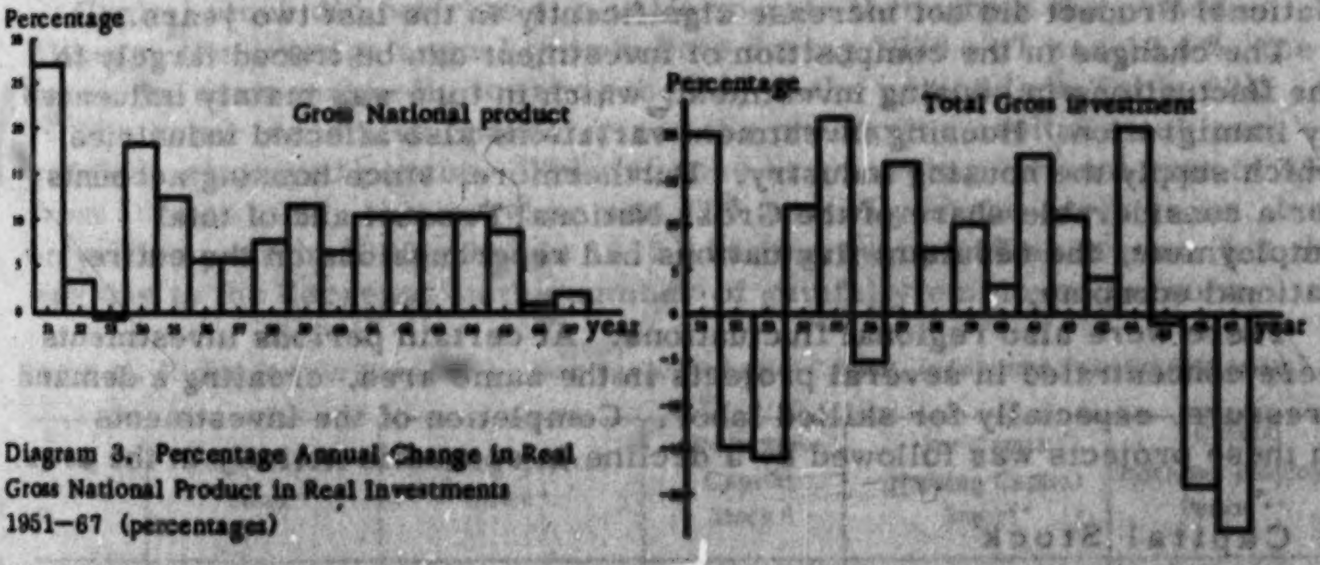

Diagram 3. Percentage Annual Change in Real Gross National Product in Real Investments 1951—67 (percentages)

Investment went up 20% in 1951 and 22% in 1955, but fell by about 16% per year in 1952 and 1953, 1% in 1965, 19% in 1966 and 24% in 1967. The decline in investments in any given year had an immediate effect on the Gross National product. What happened in 1952—1953 and 1965—1967 may serve as a good illustration of this effect.

During the 50s the Government financed a considerable share of investments, including private investments, but in 1952—1953 it curtailed its direct investment and its participation in private investment. Consequently the volume of investments went down 15% in 1952 and the rate of growth of the National Product went down from 29% in 1951 to 4%

TABLE 9. Percentage Annual Change in Real Gross National Product and Real Investments, 1951–1967

	Gross national product	Total gross domestic investment	Total investment in branches of the economy	Total investment in housing
1951	28.7	19.9	23.1	16.6
1952	3.7	(-)14.7	(-)13.4	(-)27.3
1953	(-)0.6	(-)15.9	(-)11.3	(-)20.5
1954	18.9	11.7	2.1	27.3
1955	12.9	22.1	21.7	13.7
1956	12.0	(-)4.8	6.8	(-)13.2
1957	6.3	17.4	16.6	22.3
1958	7.5	6.9	8.4	(-)1.6
1959	12.1	9.9	8.8	11.0
1960	6.5	3.1	5.2	(-)2.4
1961	10.8	18.3	18.1	22.3
1962	10.4	11.1	3.4	26.0
1963	11.3	4.3	9.6	(-)1.0
1964	10.1	21.4	23.3	10.9
1965	8.6	(-)0.8*	0.4	7.2
1966	0.6	(-)18.7	(-)20.0	(-)20.4
1967	1.4	(-)24.1	(-)13.7	(-)32.3

* The drop in the total is due to the drop in inventories

Source: Calculated from data of Central Bureau of Statistics.

in 1952. In the following year gross domestic investment went down anothe 16% and the Gross National Product fell by about 1%.

Again in 1965–1967 investments went down substantially and the Gross National Product did not increase significantly in the last two years.

The changes in the composition of investment can be traced largely to the fluctuations in housing investment, which in turn was mainly influenced by immigration. Housing investment variations also affected industries which supply the housing industry. Furthermore, since housing accounts for a considerable share of the Gross National Product and of total employment, the resultant fluctuations had repercussions on the entire national economy.

There were also regional fluctuations. At certain periods investments were concentrated in several projects in the same area, creating a demand pressure, especially for skilled labor. Completion of the investments in these projects was followed by a decline in economic activity in the area.

8. Capital Stock[7]

The gross capital stock in fixed assets amounted to IL 32,500 million (at 1966 prices) at the beginning of 1968, made up of 63% productive capital stock and 37% housing. From the beginning of 1950 until the beginning of 1968, capital stock has multiplied almost eightfold in real terms, with a slightly higher increase in productive than in housing capital stock.

Housing and productive capital stock grew much faster than population and employment. As a consequence, per capita housing capital stock rose almost threefold, from IL 1,390 in 1950 to IL 4,150 in 1966, and the productive capital stock per employed person increased fourfold, from IL 5,060 to IL 20,680 (at 1966 prices).

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[7] See note at the end of the Chapter.

TABLE 10. Capital Stock, Gross Investment and Discards, 1950—1968* (IL million, at 1966 prices)

Economic Branch	Capital Stock as at 1.1.'50**	Gross Investment in 1950-67	Discards in 1950-67	Incremental Capital Stock	Capital Stock as at 1.1.'68 **
Agriculture	770	3,007	557	2,450	3,220
Irrigation	250	1,417	46	1,371	1,630
Industry, mining and construction equipment	590	5,469	1,332	4,137	4,720
Electricity	150	1,256	134	1,122	1,270
Transport and communications	390	4,869	830	4,039	4,430
Commerce, hotels and personal services	160	1,026	107	919	1,080
Public institutions	150	4,141	279	3,862	4,010
All branches of the economy	2,460	21,185	3,285	17,899	20,360
Housing	1,690	10,652	180	10,472	12,160
Total fixed assets	4,150	31,837	3, 465	28,371	32,520

* The source for all capital stock and discard tables appearing in this chapter is Dr.E.L. Gaathon's book, Economic Productivity in Israel, 1950—66 (about to be published) and the data processed from it by the Economic Planning Authority.

** Rounded off to the nearest 10-million.

Capital stock did not rise at a uniform rate throughout the period. Although the average annual growth rate during 1950—67 was 12.6%, the rate went down markedly towards the end of the period (see Table 12).

The same trend also characterized the productive capital stock per gainfully employed person. While it rose at an average annual rate of 8% from 1950 to 1967, the increase was 11% annually in the early years, but only 6% a year in 1960—64. In 1965—66 it grew by 10% each year, but this was due to the decrease in the number of gainfully employed persons.

TABLE 11. Capital Stock in Fixed Assets— Housing and Productive Capital, in Selected Years (at 1966 prices)

	Total Capital Stock*	Housing Capital Stock *	Productive Capital Stock *	Per Capita Housing Capital Stock**	Capital Stock per Employed Person **
1950	4,150	1,690	2,460	1,330	5,860
1955	9,330	3,850	5,470	2,290	9,490
1960	15,950	6,250	9,700	2,950	13,820
1965	26,510	9,950	16,560	3,880	18,790
1966	29,090	10,890	18,200	4,140	20,880
1968	32,520	12,160	20,360		

* Capital stock as of the beginning of the year.

** Capital stock as of the beginning of the year divided by the average number of gainfully employed persons, or of the population, during the year.

The increase in productive capital per employed person was one of the main causes of the rapid economic development of the country during 1950 — 67. The increase in per capita housing stock reflects the rising standard of living of the population.

TABLE 12. Percentage Average Annual Increase in Employment, Housing and Productive Capital Stock During Selected Periods

Period	Employment	Total Capital Stock	Housing Capital Stock	Productive Capital Stock	Per Capita Housing Capital Stock	Productive Capital Stock per Employed Person
1950—54	7.2	19.2	19.5	19.0	11.2	11.0
1955—59	4.2	11.5	10.3	12.2	5.9	7.7
1960—64	5.0	10.7	9.7	11.3	5.5	6.0
1965—67	(-)2.5	8.3	8.2	8.3	6.7[1]	10.0[1]
1955—64	4.5	11.0	10.0	11.7	5.8	7.0
1950—64	5.2	13.3	12.7	13.7	7.5	8.1
1950—67	4.1	12.6	12.0	12.9	7.3[2]	8.2[2]

[1] For the period 1955—66.

[2] For the period 1950—66.

The increase in capital stock was not uniform for all branches of the economy over the years 1950 — 1967. While at the beginning of the period (1950—54) housing capital stock accounted for over 41% of total fixed assets, its share went down steadily to 37% at the end of the period (1965—67).

Gross non-housing capital stock went up from IL2,500 million (at 1966 prices) at the beginning of 1950 to IL20,400 million at the beginning of 1968, the average annual growth being 12%. In agriculture capital stock went up from IL770 million (at 1966 prices) at the beginning of 1950 to IL3,220 million at the beginning of 1968, at an average annual rate of 9% — less than in any other sector. Hence the weight of agriculture in productive capital stock fell off from 31% at the beginning of 1950 to 16% at the beginning of 1968 (see Table 13).

The most striking increase took place in the capital stock of public institutions, which rose from 6% of the total productive capital stock in 1950 to 13% in 1960 and 20% at the beginning of 1968 — when the capital stock of medical, educational and welfare institutions, Government offices and local councils, etc., amounted to IL4,000 million (at 1966 prices).

Capital stock in industry, mining and quarrying rose from IL585 million (at 1966 prices) at the beginning of 1950 to IL4,715 million at the beginning of 1968, at an average annual rate of growth similar to that of the total non-housing capital stock — 12%. Industry, mining and quarrying accounted throughout the period for about a quarter of the total non-housing capital stock.

In transportation and communications, capital stock rose at an average of 14% annually since 1950. This rather high rate of increase pushed up the share of this sector in the total productive capital stock from an initial 16% to 22% at the end of the period. Capital stock in this sector amounted to IL4,430 million (at 1966 prices) at the beginning of 1968.

TABLE 13: Capital Stock* by Economic Sector, in Selected Years and Real Rates of Increase, by Sector and Period (Percentages)

	Weight in Total Capital Stock**					Average Annual Rate of Increase				
	1950	1955	1960	1965	1968	50–54	55–59	60–64	65–68	50–68
Agriculture	31	23	22	18	16	11	12	7	3	9
Irrigation	10	12	9	9	8	22	7	10	6	11
Industry, mining and quarrying	24	26	26	26	23	22	11	11	4	13
Transportation and communications	16	18	17	20	22	24	12	13	11	14
Electricity	6	6	7	6	6	16	20	8	8	13
Commerce, hotels and personal services	7	5	5	5	5	16	7	14	9	11
Public institutions	6	10	13	17	20	31	20	17	12	20
Total except housing	100	100	100	100	100	19	12	11	7	12
Housing as percentage of total capital stock	41	41	39	38	37					
Rate of increase of housing capital stock						20	10	10	7	13

* As at the beginning of the year.

** Based on 1966 prices

Capital stock of the water and irrigation sector went up from IL250 million (at 1966 prices) at the beginning of 1950 to IL1,625 million at the beginning of 1968, at an average annual rate of 11%. Its share in total productive capital stock went down from 10% at the beginning of the period to 8% at the end.

Both electricity and commerce, hotels and personal services accounted throughout for about 6% of the capital stock.

Capital Stock Per Gainfully Employed Person by Sector

Productive capital stock per gainfully employed person grew about fourfold: from about IL5,860 in 1950 (at 1966 prices) to IL20,680 in 1966. As may be seen from Tables 14 and 15, this growth was reflected in every sector, though at different rates.

Agriculture, not including irrigation, was the most capital-intensive branch at the beginning of the period. But because the total and per-employee capital stock in agriculture subsequently grew less than in other sectors, it gradually became comparatively less capital-intensive. While at the beginning of the period the capital per gainfully employed person was IL10,500, it was IL26,400 (at 1966 prices) at the end of the period. This

increase was partly due to growing investments, but it was also affected b the relatively slow growth in employment.

TABLE 14: Productive Capital Stock per Gainfully Employed Person* by Sector in Selected Years (IL at 196 prices)

	1950	1955	1960	1965	1966
Agriculture**	10,590	12,550	18,090	24,890	26,44
Industry, mining and quarrying	6,540	11,590	15,550	18,850	20,16
Transportation and communications †	7,480	13,780	24,750	44,760	50,74
Commerce, hotels and personal services	–	–	3,130	4,660	5,04
Public institutions	–	–	8,260	13,950	15,52
Average for all sectors	5,860	9,490	13,820	18,790	20,68

* Capital stock at the beginning of the year divided by the average number of persons employed during the year.

** Not including capital stock in irrigation, which is included only in the totals.

† Not including capital stock in roads, which is included only in the totals.

Capital stock per gainfully employed person in industry and mining was more or less the same as in the economy as a whole (see Tables 14 an 15), and went up from IL6,500 in 1950 to over IL20,000 in 1966 (at 1966 prices).

TABLE 15. Annual Real Rate of Change in Capital Stock per Gainfully Employed Person, by Sector and Period (in percentages)

	1955–1964	1965–1966	1950–1966
Agriculture*	7	6	6
Industry, mining and quarrying	5	7	7
Transportation and communications	12	13	13
Commerce, hotels and personal services	7†	8	
Public institutions	13†	11	
All economic branches	7	8	8

* Not including capital stock in irrigation.

** Not including capital stock in roads.

† For 1957–64.

9. Discards, by Sector[9]

The total discards in 1950–1967 amounted to IL3,465 million, with IL180 million in housing and IL3,285 million in the various branches of the economy (at 1966 prices). Throughout, total discards constituted 11%

[9] See note at the end of the chapter.

of the gross investment — 15% in non-housing sectors and only 2% in housing. During 1950—1967 close to a quarter of the gross industrial investment was allocated of the replacement of discards. This was due to the high component equipment, which has a shorter lifetime than buildings, in total industrial capital stock.

TABLE 16. Percentage of Discards in Gross Investment and Their Average Rate of Growth by Sector, 1950—1967

	Share of Discards in Gross Investment	Average Rate of Growth (%)
Agriculture	19	6
Irrigation	3	7
Industry, mining and quarrying	24	8
Electricity	11	4
Transportation and communications	17	11
Commerce, hotels and personal services	10	4
Public institutions	7	13
All economic branches	16	11
Housing	2	4
Total fixed assets	11	10

Source: Economic Planning Authority.

In agriculture, discards — mainly of agricultural machinery and equipment — equalled about 17% of gross investment and amounted to over IL500 million (at 1966 prices).

Discards in the public institutions increased by an average of 13% annually during 1950—1967, more than in any other sector, but the share of discards in gross investments averaged 7% in this category.

In irrigation and electricity, as well as in commerce, hotels and personal services, total discards amounted to IL287 million (at 1966 prices) during 1950—1967. In irrigation, discards increased at an average of 7% annually, in electricity at 4% annually and in commerce, hotels, etc. by 4% a year.

B. INVESTMENTS UNDER THE DEVELOPMENT PLAN

1. Coordination of Projected Investment with the Economic Development Plan

In 1968—71 annual investment level is expected to be considerably higher than in the past three years.

Investments under the development plan, particularly during the first tw years, will step up economic activity, which slowed down in 1965–1967. The production of investment assets, especially of buildings, will provide jobs for many of the unemployed and for part of the incremental labor forc

The extensive projected investment — mainly in industry and mining, transport and agriculture — will increase productive capacity, so that the Gross National Product can go up by 9% annually during the period of the plan. On the other hand, the level of investments will not be such as to give rise to severe inflationary pressure.

Various tax and customs concessions, as well as grants and long-term, low-interest loans, granted under the Law for the Encouragement of Investments will stimulate investments in projects contributing to exports - industry, hotels and the like — and since greater incentives will be given in development areas, more investments will be channeled to these areas.

As considerable sums will be invested in health, educational, administrative and other service institutions, services to the public will be expanded and their standards raised.

A higher proportion of the housing investment than during the past 10 years will go into immigrants' housing, slum clearance, and the enlargement and improvement of immigrants' and farmers' houses built at the beginning of the 50's. In accordance with the Government's policy to encourage immigration from the West, and the expected rise in the standard of living, the new houses provided for immigrants will be larger and of higher quality.

Gross investments during the four years of the development plan will amount to about IL12,000 million (at 1966 prices): close to IL3,000 million in housing, and over IL9,000 million in other branches of the economy. About a third of the non-housing investment will go to transport and communications, about 28% to industry and mining, and about a quarter to commerce and public and private services.

By 1971 the total investment should amount to IL3,500 million — over IL1,500 million more than in 1967. Investments are expected to grow at an average annual rate of 7% over 1966 and 17% over 1967. The growth will be particularly marked during the first two years of the plan, especially in 1968 compared with 1967. This increase in investments will also lead to a considerable rise in employment and a more rapid increase in the national product in 1968 and 1969. During the last two years of the plan, investments will continue to grow, though at a slower pace.

As a result of the steep decline in annual investments in 1965–1967, the share of investments in the Gross National Product and in total resources went down, as compared with 1954–1964, and the lowest level was reached in 1967, with investments constituting only 16% of the Gross National Product and 14% of national resources.

In 1968 investments are expected to grow faster than either Gross National Product or total economic resources, so that they will constitute a slightly higher proportion than in 1966. This level is expected to remain more or less constant during the four years of the development plan. Whil gross investment will account for about 19% of the total resources for 1968–1971, about 35% of the additional resources will be diverted into investments.

TABLE 17. Gross National Product, Total Resources and Gross Investment, 1966, 1967 and 1971 (in IL million, at 1966 prices)

				Average annual increase (percentage)		Additional resources invested (percentage)	
	1966	1967	1971	1971/1966	1971/1967	1971/1966	1971/1967
Gross National Product	11,943	12,109	17,180	7.5	9.1	103.1	105.6
Import surplus	1,344	1,455	1,185	(-) 2.6	(-) 2.1	(-) 3.1	(-) 5.6
Total national resources	13,287	13,564	18,365	6.7	7.9	100.0	100.0
Gross domestic investment	2,518	1,910	3,565	7.2	17.0	20.6	34.5
Investment as percentage of Gross National Products	21	16	21	—	—	—	—
Investment as percentage of total national resources	19	14	19	—	—	—	—

Since investments will be selective, and preference will be given to investments in industry, transportation, agriculture and tourism, the national product is expected to grow considerably during 1968—1971.

2. Investment Policy

a. The Law for the Encouragement of Capital Investments

This Law will be the main mean for encouraging investments from both local and foreign sources. It has undergone several revisions, which have had the effect of increasing the profitability of investments in export-orientated projects and of investments in development areas. This applies both to new projects and to existing enterprises that are expanded or transferred from the coastal strip to the development areas. The amendments introduced in the Law last year were mainly designed to encourage investments in industrial or tourist projects which supply steady employment in the development areas.

Projects approved under this Law will be recognized as "approved enterprises" which, according to the recent amendment, will benefit from additional loans and grants and further indirect tax concessions.

The financial grant, expressed as a percentage of total investment, will vary with the location of the project, as follows:

TABLE 18. Rate of Grant as Percentage of Investment in Fixed Assets

Type of investment	A Priority area*	B Priority area**	All other areas
Machinery and equipment	33.3	25.0	20.0
Buildings and site development	20.0	15.0	10.0

* Negev and Northern and Eastern Galilee

** Northern Negev, Afula area and Western Galilee

The percentage of the investment for which a loan is granted and the rat of interest also depend on the area where the project is located, as follows:

TABLE 19. Size of Loan and Rate of Interest (Percent)

	A Priority area	B Priority area	All other areas
Loan as percentage of investment in fixed assets	55.0	50.0	45.0
Rate of interest	6.5	8.0	10.0
Ceilings of loan and grant as percentage of investment in fixed assets	80.0	70.0	60.0

In addition, priorities have been laid down for the various sectors and sub-sectors. In those sectors which seem to hold out the best prospects of being able to compete on the international market, investors will be given additional priorities. The Government also intends to encourage investors who can contribute knowhow and marketing outlets.

In addition to the benefits under the 1967 amendment, investors will also benefit from the other provisions of the Law applying to approved investments: payment of income tax at the rate of 28% instead of 53.5% for the first five years during which the enterprise shows a profit; and exemption from customs duties and purchase tax on machinery, other equipment and building materials used for the erection of the project.

Under the Law, foreign residents who have made an approved foreign-currency investment are entitled, upon receiving a permit from the Minister of Finance, to convert their interest or profits — prior to deduction of depreciation — into foreign currency and to repatriate them freely.

Moreover, if in a given year profits are less than 10% of the investment, foreign promoters may nevertheless repatriate up to 10% of their investment. The Law further makes it possible for investors to repatriate their principal in foreign currency: an investment held for less than five years can be repatriated in foreign currency at equal annual installments over a period of five years from the date the investment was first made, and an investment held for over five years can be immediately repatriated.

During the period of the development plan, the Government also intends to encourage other than approved investments. Buildings will be made available at an annual lease of IL15 per sq.m. in high-priority areas and IL21 per sq.m. in lower-priority areas; the lessee will have the option of buying the structure within three years from the beginning of the lease, half the rent paid by him being credited against the purchase price.

Through the commercial banks, the Government will grant loans to the extent of 50% of the working capital required in high-priority areas and up to 40% in medium-priority areas, at a flat rate of interest of 9%. Plants engaged in production for export will receive loans to finance their exports at a low interest rate of 6%.

As an incentive for existing enterprises to move to the development areas, the Government is prepared to participate in transfer costs, grantin a maximum of IL1,000 for every new job created in a development area, depending on its priority rating. It should further be noted that responsibility for matters concerned with investment has been consolidated in a smaller number of institutions, so that the procedures have been considerably simplified.

b. Implementation and Regulation of Investment Plan

The major means available to the Government for achieving the desired level of investments are the Development Budget, the Investment Center and the Industrial Development Bank.

The investment level can be nationally or regionally regulated by varying the size and composition of the Development Budget. If private investments go down, investments in public projects should be expanded and a more liberal policy should be adopted regarding loans financed or controlled by the Government; the reverse should be done in case of investment demand pressure.

The internal balance of the Development Budget should be changed when, for any reason, the public sectors investments, e.g., in immigrants' housing or infrastructure projects, need to be increased or can be decreased. Special stress should be laid on balancing the investment level in the areas concerned.

3. Investment Programs

a) Investments by Sector

This proposed plan merely indicates the expected order of magnitude of investments over the years, so as to show the projected development trends, but does not presume to outline a detailed annual investment program for each sector.

The investment projects for most sectors have been based on the projected increase in their output, according to the capital-output ratio in each sector, taking into account increased employment and estimated discards.

(1) Agriculture

During the four years 1968—1971 about IL680 million (at 1966 prices) are due to be invested in agriculture. The investment in 1968 will be IL185 million and the annual volume of investments will gradually go down to IL145 million by 1971. The share of agriculture in total productive investments has been going down steadily in the past few years and this trend will continue in the future, so that by 1971 it will be only 6% (see Table 20).

About one-third of agricultural investments are designed for the replacement of discards and about two-thirds for increasing capital stock. About one-fifth of the incremental capital stock is intended for plantations, about one-fifth for livestock and the rest for machinery, irrigation, land reclamation and afforestation. Some of the investments will go into special export installations — greenhouses, sorting and packaging sheds, etc.

TABLE 20. Investments in 1966—67 and Projected Investments in 1968—71, by Sector (in IL million, at 1968 prices)

Branch	1966	1967[1]	Projected Investments[2]				Total 1968—71
			1968	1969	1970	1971	
Agriculture[3]	142	133	185	180	170	145	680
Irrigation	75	69	60	60	60	60	240
Industry, mining and quarrying[4]	309	246	400	600	700	800	2,500
Construction equipment	30	18	30	35	40	40	145
Electricity	89	90	115	120	100	115	450
Transport and communications:	452	414	730	715	685	765	2,895
Railways	(18)	(11)	(20)	(20)	(10)	(10)	(60)
Vehicles	(137)	(85)	(155)	(185)	(200)	(230)	(770)
Roads[5]	(82)	(123)	(130)	(140)	(160)	(170)	(600)
Ships and planes	(48)	(35)	(140)	(85)	(110)	(160)	(500)
Airports and harbours	(43)	(16)	(25)	(35)	(35)	(25)	(120)
Postal services	(114)	(133)	(130)	(140)	(145)	(150)	(565)
Miscellaneous[6]	(10)	(11)	(130)	(105)	(25)	(20)	(280)
Services, public, institutional and private	534	438	470	530	580	640	2,220
Gross investment in non-housing sectors	1,631	1,408	1,990	2,240	2,335	2,565	9,130
Housing	776	525	580	660	750	850	2,840
Total investments in fixed assets	2,407	1,933	2,570	2,900	3,085	3,415	11,970
Inventories	110	-23	100	130	140	150	520
Total gross domestic investment	2,517	1,910	2,670	3,030	3,225	3,565	12,490

1) Preliminary estimates.
2) Rounded off to the nearest 5 million.
3) See Table 20 in chapter on Agriculture.
4) Excluding possible investments in projects intended to replace imports for the defence system.
5) Including investments in main and local roads, and in special urban traffic projects.
6) Including investments in oil pipelines.

(2) Electricity and Water

According to the plan, about IL450 million will be invested in electricity and about IL240 million in irrigation in the years 1968—1971.

About half the electricity investment will be for two new power plants, while the other half will be used for transformer stations, high tension lines, distribution networks, etc. Electricity will thus maintain its constant 5% share of total non-housing investment.

Part of the irrigation investments will be used for developing new water resources by the catchment of floodwater, the completion of the National Water Carrier, the recovery of drain water and water carrying and distribution systems. Another portion will be used to bring about economies in the use of water by the replacement of absolute equipment and thechnological improvements.

(3) Industry and Mining

Investments in the industry and mining sector during the next four years are set at about IL 2,500 million[10]—about four-fifths for increasing production capacity and one-fifth for the replacement of discards. The Government intends to stimulate industrial development in the following directions:

1. The utilization and processing of local raw materials, such as minerals and agricultural produce.
2. Export industries largely dependent on knowhow, research and skilled labor, and industries producing quality and specialized products.
3. Industry connected with defence requirements.

In the utilization and processing of raw materials, the following major investments are projected: in the chemical complex to be set up in Arad, about IL110 million (at 1966 prices); in the Haifa chemicals plants, a further IL40 million; in the erection of new plants at Chemicals and Phosphates (North), about IL35 million. Considerable amounts will also be invested in the expansion of the Potash Works.

Investments in mining and quarrying, chemicals, fuel refining and non-metallic minerals will amount to almost 30% of the total investment in industry and mining. About one-fifth of the total will go to the metal industries, including the manufacture of machinery and vehicles, some 13% to textiles and clothing, and about 10% to the food industry.

The share of investments in industry, mining and quarrying in the total non-housing investment will rise from about one-fifth in 1967 to about one-third in 1971. This is an indication of the priority given to this sector in the development program. High profitability of the new projects and a number of new investors will be necessary to attain this goal.

(4) Investments in Building and Earth-moving Equipment

Investments in this sector in 1968—1971 will amount to IL145 million. Most of the investment will be used to replace discards and only a minor portion to increase productive capacity.

(5) Transportation and Communications

Some IL 3,000 million (at 1966 prices) will be invested in transportation and communications. About a quarter of the investment in transportation will be used to replace discards. Transportation investments, especially in vehicles, ships and roads, will rise considerably. The big oil pipeline from Eilat is included in the investment program of this sector. Altogether, transportation investments will amount to about one-third of the total investment in the non-housing sectors.

About IL770 million — a quarter of the total investment in transportation and communications — will be used for inland transport vehicles, about

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10) Excluding possible investments in projects intended to replace imports for the defence system.

IL600 million for urban and inter-urban road building and widening and for special urban projects, about IL570 million for the development of the posts and telecommunications (especially for the telephone system), and about IL500 million for new ships and planes. The investments in marine transportation, aviation and the new oil pipeline will of course increase the national foreign currency receipts.

TABLE 21. Investments in Fixed Assets, by Sector, in 1967, 1971, 1960—64, 1965—67 and 1968—71 (percentages)

	1967	1971	1960—64	1965—67	1968—71
Agriculture	10	6	11	8	7
Irrigation	5	2	7	4	3
Industry, mining and construction equipment equipment	19	33	27	24	29
Electricity	6	5	4	6	5
Transportation and communications	29	30	25	29	32
Commerce and services	31	25	26	31	24
Total non-housing investment	100	100	100	100	100
Housing investment as percentage of total investment in fixed assets	27	25	22	31	24

(6) Public and Institutional Services, Commerce, Hotels and Personal Services

According to the existing trends of development in public consumption, investments in public and private services will grow at the rate of 10% annually. Most of the public and institutional investments will go towards raising the standard of the present educational and health services. Altogether some IL2,250 million will be invested in commerce and services during the coming four years.

The relative share of commerce and services in the total non-housing investment is expected to go down from 31% in 1967 to about 25% by 1971.

TABLE 22. Projected Investments in Education and Health, 1968—1971 (IL million, at 1966 prices)

	1968	1969	1970	1971	Total, 1968—71
Investments in education	150	155	160	165	630
Investments in health	75	90	95	85	345

In the field of education, the major projects will be the erection of additional buildings at the new universities of Haifa, Tel Aviv and Beersheba, and of new regional post-primary and comprehensive schools.

In the field of health services, considerable sums will be invested in building new hospitals, such as the projected Tel Giborim General Hospital and the Mental Hospital in the Haifa District. Funds will also be invested in providing new premises for hospitals whose installations have become obsolete, and in expanding existing ones, such as the Rambam Hospital in Haifa.

Over IL200 million will be invested in the tourist industry: some IL175 million in the erection of new hotels and the expansion of existing ones to provide an extra 5,000 rooms in all parts of the country, including over IL20 million in hotels in Eilat, to cater for winter tourism; and another IL20 million in the development of historic sites.

(7) Housing

Housing investments are set at IL2,800 million (at 1966 prices), of which about IL670 million will be spent on the construction of immigrants' housing, IL655 million in providing new housing for the incremental population, and about IL1,375 million in alternative housing for the existing population. Special stress will be laid on raising the standard of immigrants' housing, according to the Government's policy of encouraging immigration from the West. Considerable sums will also be spent on improving present housing conditions, especially for slum clearance.

Per capita housing capital is expected to rise from about IL4,150 in 1966 to over IL4,800 by 1971 (at 1966 prices).

The share of housing in the total investment in fixed assets will continue to go down — as it has done throughout the preceding period[11] — to about 25% in 1971. This rate is still higher than in many European countries.

b) Capital Stock

Gross capital stock will go up from about IL33,000 million (at 1966 prices) in 1968 to about IL42,000 million at the beginning of 1972. During 1968—1971, out of the gross investment of about IL12,000 million, some IL2,100 million will be spent on the replacement of discarded equipment and structures. Capital stock in the non-housing sectors will amount to about 65% of the total and will rise at an average rate of 6.1% annually.

Capital stock in industry will grow by approximately 10% annually, so that industry will account for about a quarter of the productive capital stock by the end of the period.

The growth of capital stock in agriculture will be lower than in most other sectors of the economy. The weight of agriculture in the total non-housing capital stock will continue to go down, from 16% at the beginning of 1968 to 13% at the beginning of 1972. The share of irrigation and electricity together will remain constant at about 13% of the total.

Capital stock of communications and transportation is expected to grow by 8.5% annually, more than most other sectors. As a result, the capital stock of this sector will move up from 22% at the beginning of 1968 to about a quarter of the total productive capital stock by the beginning of 1972 and will amount to IL6,700 million. Services and commerce will maintain the same level — about a quarter of the productive capital stock.

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[11] From 41% in 1950—1954 to about 34% in 1955—1965 and 31% in 1966—1967.

TABLE 23. Gross Capital Stock by Sector, 1968—1972 (IL million, at 1966 prices)

	Capital stock as at 1.1.68*	Total investment, 1968—1971	Total discards, 1968—1971	Incremental capital stock, 1968—1971	Capital stock as at 1.1.72*
Agriculture	3,220	680	210	470	3,690
Irrigation	1,630	240	30	210	1,840
Industry, mining and construction equipment	4,720	2,645	575	2,070	6,790
Electricity	1,270	450	100	350	1,620
Transportation and communications	4,430	2,895	660	2,235	6,670
Commerce and services	5,090	2,220	515	1,705	6,790
Total non-housing capital stock	20,360	9,130	2,090	7,040	27,400
Housing	12,160	2,840	150	2,690	14,850
Total Fixed capital stock . . .	32,520	11,970	2,240	9,730	42,250

* Rounded off to the nearest 10 million.

TABLE 24. Capital Stock Distribution and Average Annual Growth by Sector, 1968—1972*

	Capital stock distribution (percentage)		Annual rate of increase (percentage)
	1968	1972	1972/68
Agriculture	16	13	3.4
Irrigation	8	7	3.1
Industry, mining and construction equipment	23	25	9.5
Electricity	6	6	6.3
Transportation and Communication	22	24	8.5
Commerce and services	25	25	7.5
Total non-housing capital stock	100	100	8.1
Housing as percentage of fixed capital stock	37	35	

* Calculated according to the stock as at the beginning of the year.

TABLE 25. Capital Stock per Gainfully Employed Person, by Sector, and Per Capita Housing Capital Stock, 1966–1971

	1966	1971 3)	Average annual rate of increase (per cent)
Agriculture 1)	26,440	32,590	4,3
Industry, mining and quarrying	20,160	23,050	2,7
Transportation and communications 2)	50,740	63,010	4.4
Commerce and services	10,700	13,565	4.9
Total non-housing sectors	20,680	24,996	3.9
Housing	4,140	4,840 4)	3.2

1) Excluding irrigation
2) Excluding roads
3) Not including East Jerusalem and defence workers
4) Including East Jerusalem

All branches of the economy are expected to become more capital-intensive. The productive capital stock per employed person will go up 3.9% on an annual average, and is expected to amount to IL25,000 by 1971 as against IL21,000 in 1966. The higher ratio of capital per employed person will help to increase output per employed person.

No changes are expected in the relative capital-intensity of the different sectors. Transportation and communications will continue to rank first, with close to IL63,000 capital per employed person, followed by agriculture with IL33,000 and industry with IL23,000. The ratio will remain lowest in the building industry.

Housing stock per capita, which was over IL4,100 in 1966, is expected to go up by another IL700 during the next four years.

Note on Capital Stock and Discards

Changes in capital stock are customarily used as a rough index of changes in productive capacity.

There are several methods of calculating the gross capital stock of fixed assets. According to the method adopted in this chapter,[12] the value of the gross capital stock at a given time was obtained by accumulating annual gross investments, limited to investments made within the span of the average lifetime of each asset, up to that time. Assuming, for instance, that the average lifetime of a dwelling unit is 40 years, the gross capital housing stock at the beginning of 1960 equals the total gross housing investments each year from 1920 to 1959.[13] Again, assuming that the lifetime of industrial structures is 25 years and of industrial equipment 14 years, then the gross capital stock of industry at the beginning of 1960 consists of the entire gross annual investment in structures from 1935 to 1959, and of all annual investments in equipment from 1946 to 1959.

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[12] First developed in Israel by Dr. A. L. Gaathon of the Bank of Israel.

[13] Except for 1948, when it was arbitrarily assumed that the housing capital destroyed as a result of the War of Independence was equivalent to the housing investment in that year.

To obtain the capital stock as at the beginning of 1961, the gross investment during 1960 must then be added to the capital stock at the beginning of 1960, and the investments in the first year of all assets included in the 1960 capital stock must be deducted. This deduction is commonly referred to as "discard." It is assumed that every asset within a category has the same lifetime. For instance, vehicles used in the production process have a lifetime of 7 years, although some of these vehicles may have to be put out of operation at an earlier age, while other vehicles, older than 7 years, continue to operate. This method of calculation has a number of drawbacks:

1. In Israel, where the investment level has increased usually from year to year, this calculation results in a downward bias for discards as a reflection of depreciation, and an upward bias for the capital stock, compared with the alternative method, where a constant percentage of the annual gross investment is written off as depreciation each year.

The present method was preferred because it is believed to be a better measure of current productive capacity, whereas the depreciation method may be a better measure of the financial value of the capital stock.

2. Capital stock at any given time consists of assets with a varying lifetime and it cannot be expected that an asset of a given value which has a high life expectancy should render the same services during the year as another asset of the same value but with a lower life expectancy.

Capital stock includes raw-material stock, as well as the inventory of in-process and finished products. This chapter, however, takes into account only the fixed stock.

CHAPTER FOUR: INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS

A. FOREIGN RELATIONS AND THEIR EFFECT ON THE ECONOMY

Like other small countries with a similar economic structure, Israel must import most of the raw materials and investment goods required for her economic development. She must export in order to be able to pay for these imports. As a small country, too, Israel needs international trade in order to be able to achieve the benefit of specialization while bigger ones can specialize within their own economies.

There are two aspects to be examined in connection with Israel's economic relations with the rest of the world. The one access to markets, especially the bigger ones (such as the Common European Market and the European Free Trade Area), and the international treaties and conventions which further or hinder such access. The second is the economic condition and the level of economic activity of those countries with which Israel maintains close trade relations.

1. Access to Markets and International Organizations

In a world of competitive economies and private initiative, access to markets is of primary importance for economic development. Economic development, especially in industry, raises problems of investments, the economic size of enterprises, and the type of product to be manufactured, and in a small country the solution of these problems depends not only on the domestic market but on foreign markets, since the small market alone cannot achieve the required degree of specialization.

Most of Israel's foreign trade is conducted with industrial countries: 80% of commodity imports and 70% of commodity exports in the years 1963–1966 came from or went to Western Europe and North America. Other important markets, such as South America and Africa, accounted for about 9% of imports and 18% of exports.

Israel's natural market, the neighboring Arab countries, is closed to her, as are considerable potential markets in Asia. Israel has friendly relations with many African countries south of the Sahara, as well as with Latin-American countries; she must do all she can to increase her exports to these markets, but they cannot in the near future take more than a relatively small share of the increment in Israel's exports. In some cases it is a question of distance; others are developing countries which chiefly need products that Israel does not produce.

Imports, including capital imports, have also come, and will continue to come, mainly from Western Europe and North America, and any major increase in Israeli exports during the next few years must be based mainly on these markets. No change in the order of the importance of Israel's foreign markets can be expected, therefore, by the middle of the 70s.

Association with a major economic trading bloc, such as the European Economic Community, holds out considerable prospects for the Israeli economy. These organizations enable their members to develop their economies on the basis of international specialization. Six countries of Europe, for instance, are organized within the European Economic Community (the European Common Market) and another seven countries in the European Free Trade Area (EFTA). These are only two — though the most important from the Israeli point of view — of a large number of organizations, some already functioning and some in various stages of formation.

Access to markets is extremely difficult for countries left out of such organizations, since the member countries erect customs barriers against non-members.

Another means of gaining access to markets is through bilateral clearing agreements. In this way Israel has found her way to several markets, mainly into Eastern Europe, which would probably have been inaccessible otherwise. At the beginning of the 50s this trade accounted for 40% of Israel's exports and 13% of her imports, but it has declined considerably in recent years. Trade relations with the East European countries, which were based on such clearing agreements, were affected by the aftermath of the Six-Day War. Roumania is an exception; Israeli trade with that country is prospering. The agreement with Roumania is not based on bilaterial clearing arrangments but on free currency exchange, and there is also a special long-term trade treaty. Another part of Israel's trade, especially in raw materials and primary products, is conducted within the framework of international agreements.

There also are non-regional international organizations, such as GATT and UNCTAD, which are designed to encourage international trade. This growing world trend towards organization must be taken into account by all countries in mapping out their economic policy. Below we shall survey some of these international institutions and organizations, as well as some of the major markets and the prospects of gaining access to them.

(a) GATT (General Agreement on Tariffs and Trade)

The GATT Agreement, which has been joined by 70 countries, is intended to expand world trade by reducing customs tariffs and preventing customs discrimination. The recent major negotiations conducted by this organization — the so-called Kennedy Round — has resulted in an agreement to reduce customs duties on a large number of commodities. For a third of the goods in international trade a 50% tariff reduction on industrial imports was agreed upon, though the achievements were less impressive regarding import duties on agricultural produce.

The principal provisions of GATT are:
a. Preferred-nation agreement — any customs benefit given by one member-country to any other country shall immediately be allowed to all other members as well, the only exception being the establishment of customs unions and free trade regions (EEC, EFTA, etc.).
b. Internal charges on imports shall not exceed the taxes imposed on domestic production.
c. Prohibition of quantitative restrictions on imports, export subsidies and dumping.
d. Developing countries are entitled to a number of exceptions from these provisions so as not to impair their economic development and allow their young industries to develop. So that they may be able to stimulate their exports, they are not bound to allow the developed countries the same customs concessions as they enjoy. Efforts are also made to secure markets for raw materials and primary products and stabilize their prices, while the developed countries undertake to facilitate the import of products exported by developing countries.

Israel applied for admission to GATT in 1959 and was admitted as a full member in 1962. During the first stages of the negotiations, Israel agreed to reduce several customs tariffs and demanded reductions in the customs tariffs of other countries.

In Kennedy Round, Israel was included among the developing countries and submitted a list of products on which she could grant customs concessions, on condition she received concessions in markets imporatnat for her major export products.

As an exporter Israel was interested in concessions for citrus fruit, citrus products, diamonds and chemicals. The major industrial countries were mainly interested in Israel reducing customs on motor cars and various industrial goods.

Israel's membership in GATT has a number of advantages. She thus benefits from lower tariffs in the developed member-countries, and although she also allows certain reductions they are smaller than those she receives. Reductions in customs tariffs may in the short run be harmful to some branches of the economy, but for the country as a whole, and in the long range, this can only be advantageous by leading to a better allocation of production resources. If new trade regions (like the EEC or EFTA) are set up in the future, Israel, as a member of GATT, can claim compensation demand various conditions.

Israel's bargaining position in GATT is rather limited because of the rule that a country can negotiate for customs tariff reductions only for products of which it is an important supplier.

(b) UNCTAD (United Nations Conference for Trade and Development)

UNCTAD is a permanent UN institution founded in 1964. Its object is to deal with problems of world trade and development, with special emphasis on the problems of developing countries and the removal of obstacles that hamper the expansion of their trade and their economic development. The need for an organization of this kind arose when it became evident that the trade conditions of developing countries were becoming worse from year to year, while their current account deficit was constantly growing. One of the reasons for this is that developing countries mainly export primary products — one commodity sometimes constituting the greater part of their exports — and import industrial products. The demand for primary products has not kept pace with the growing supply, while the developed countries prevent the developing countries, by customs barriers and other restrictions, from exporting industrial products. Hence UNCTAD seeks to prevent sharp fluctuations in the primary products market, to promote the development of diversified industries in developing countries so that they should no longer be dependent on the export of a small number of items, to give the developing countries easier access to the markets of developed countries, and to foster trade between the developing countries themeselves. Technical and financial aid to developing countries is also being considered. To work for these ends, five committees — on primary products, industrial products, finance and services, shipping, and the structure of world trade — have been established. During the deliberations of the committee on industrial products, the possibility has emerged that, as a first stage, the organization will help to set up a general system of priorities for the industrial exports of the developing countries. Israel would benefit from such a development.

Let us now examine some of Israel's major markets.

(c) The European Economic Community (Common Market)

The members of this Community are Italy, France, Germany, Belgium, Holland and Luxemburg. The convention of the Community, which came into force in 1958, contains various provisions designed to lead to full economic unification at a later date. The major provisions of the conventio are the lifting of customs barriers between the member counties and the establishment of a unified external customs tariff. The implementation of these provisions has led to a notable intensification of trade within the Community, which rose from $ 7,500 million in 1958 to $ 21,000 million by 1965. On the other hand, trade with non-members grew at a slower pace than before: from $ 16,000 million in 1958 to $ 27,000 million by 1965. In 1958 trade between member-countries amounted to 32% of their total trade, as against 43% in 1965. The Community accounts for between a quarter and a third of world-trade, which is obviously affected by the trend outlined.

The European Common Market is Israel's most important export and import market, accounting for about 29% of her commodity exports and 25% of her commodity imports in 1963–1966.

Israel's major export branches sell some 30% of their exports to the Market countries.

The European Economic Community's share in Israel's foreign trade has been on the increase since 1948. In 1950, for instance, the countries concerned bought 8% of her total exports, as against close to 30% in 1966. In the latter year, the EEC countries bought about 40% of Israel's agricultural exports and 25% of her industrial exports.

In exporting agricultural produce to these countries, Israel has to content with the difficulty that Italy also produces citrus fruit and is interested in preventing increased imports from non-member States. Other countries, like those of North Africa and Greece, which also grow citrus fruit, have long ago obtained special terms through agreements with the Market.

EXPORTS & IMPORTS BY PRINCIPAL COUNTRIES IN 1962-1966

IN MILLION $

Drawn by Gorin Jerusalem

FROM ISRAEL EXPORT BULLETIN 1967
Ministry of Commerce and Industry

Greece, one of Israel's competitors in the export of citrus products, is now an associate member. Spain is another serious rival. Israel, therefore, regards it as essential to obtain from the Market terms not inferior to those offered to other countries that trade with it.

TABLE 1. Regional Distribution of Commodity Imports and Exports, 1963-1966 (average) (percentages)

	Exports	Imports
Total	100.0	100.0
Europe	62.8	56.6
EEC	28.8	25.0
EFTA	25.0	28.2
Comecon	3.8	2.3
Other European countries	5.2	1.1
America	17.2	28.8
USA and Canada	15.9	27.1
Other American countries	1.3	1.7
Asia and Africa	16.7	6.3
Other countries	3.3	8.3

Source: Israel's Foreign Trade, Central Bureau of Statistics.

TABLE 2. Exports to Common European Market as Percentage of Total Exports, by Main Commodities, 1962 – 1966

Commodity	Total Exports	Exports to EEC	
		1962	1966
Total Exports	100.0	26.1	28.5
Polished diamonds	100.0	26.9	30.3
Citrus fruit	100.0	29.7	41.6
Food products	100.0	26.2	25.4
Textiles	100.0	12.2	12.3
Chemicals	100.0	19.8	15.8

Source: Israel's Foreign Trade, Central Bureau of Statistics.

This also applies to industrial exports, which are of primary importance to Israel. Since the European Common Market is, and will remain, one of the main outlets for these products, and will also remain so in the coming years, it is essential that Israel should receive terms equivalent to those extended to other countries selling to this market — either as member-States or as non-members associated with it — which compete with Israel.

Since the EEC is a vast economic unit, with a population of 200 million, and not too far from Israel, permanent association with it is likely to open up extensive development prospects, enabling her to specialize in various branches and to attract foreign investments. In this way industrial production can be reorganized and new industries can be developed which are not viable within the present narrow economic setup. It is, therefore, hardly surprising that Israel was one of the first countries to recognize the importance of the Rome Convention and to envisage the effect of such a powerful economic organization on the economic life of Europe and the world as a whole. Since 1960, Israel has had a permanent delegate to the Market, and negotiations are under way for some form of permanent association. The Community, however, is not eager to sign any agreement which might be interpreted as a breach of the European unity which is its hallmark. An agreement signed in 1964 between Israel and the Community had only a very limited effect on her exports to the member-countries. It provided for 20% customs reductions on 14 items, with cuts of up to 40% for a small number of products. In 1966 Israel formally applied for associate membership, and the application is still under consideration.

The Community has already formed associations with all the former colonies of France, as well as with Greece and Turkey. Such associations are of particular inportance to Israel because:

a. Some of the countries in question are her potential competitors in the EEC countries or potential markets for her own export products.

b. The terms offered to some of these countries — Greece, for example — may serve as a useful precedent for an association between Israel and the Community.

Since Israel, like the Market countries, is a member of GATT, it is difficult to obtain, by means of commercial treaties, conditions superior to those obtained by other countries which are not members of the EEC, and only some form of associaticn will enable her to benefit fully from the potentialities of this large market.

(d) EFTA (European Free Trade Area)

This organization was established in Stockholm in 1960. Its members are Austria, Great Britain, Denmark, Norway, Portugal, Sweden and Switzerland. Finland is an associate member.

This is a free trade area without any of the other aims of the European Community. According to the agreement signed by the member-States, internal customs barriers on products other than agricultural produce (manufactured and non-manufactured) are to be gradually abolished. Every member-country, however, is entitled to act as it pleases vis-a-vis non-members. Internal customs tariffs between the member-States were, in fact, abolished in 1966. Internal trade between the EFTA members has developed considerably since 1960, from $ 3.0 billion before the agreement was signed to $5.8 billion in 1965. During the same period, however, Great Britain's trade with the EEC grew more than her trade with the EFTA countries.

Great Britain, one of Israel's major markets, is conducting negotiations for admission into the European Common Market, and a favourable outcome might affect Israel's trade with Britain and other EFTA countries.

The EFTA countries as a unit constitute one of Israel's largest export and import markets. During 1963–66 exports to these countries averaged 25%, and imports 28%, of the total. In 1950 Israel exported to these countries over 50% of her total exports, as against the present 24%. The decline was mainly due to a drop in Great Britain's share in Israel's exports, both because of a wider distribution of citrus exports and because of the the reduced share of agricultural exports in Israel's foreign trade.

(e) Comecon (Council for Mutual Economic Assistance)

The members of this organization, which was set up in 1949, are the countries of Eastern Europe and Outer Mongolia. Its declared objectives are the same as those of the European Economic Community — economic unity and joint economic planning for all the countries of the area.

Israel's relations with Comecon are not highly developed. Theoretically, the organization constitutes an economic market, but in fact Israel's trade with these countries has been conducted solely on the basis of clearing agreements. The only exception is Roumania, with which trade relations are based on a free currency exchange. Trade agreements with the Comecon countries covered 4% of Israel's exports and 2% of her imports during 1963—66.

(f) North America (USA and Canada)

During 1963—66 about 16% of Israel's exports and 27% of her imports, went to or came from North America. Although the enormous size and purchasing power of these markets are of great potential importance to the Israeli economy, distance constitutes a serious obstacle. In addition, the USA has erected a fairly high customs barrier against imports, and although the GATT conventions may lead to certain tariff reductions, they do not particularly favor Israeli imports, so that the advantage to be gained is slight.

There is no doubt that if Israel could rely more on this market, production could be improved and costs cut down thanks to greater specialization. Special efforts are required in marketing, where US importers can be of considerable assistance. Investments in Israel oriented towards the American market would also be helpful.

The share of the US in Israel's exports went down from 25% in 1950 to about 15% in 1966, mainly because diamonds, which were at one time sold chiefly to the US, are now exported to many other countries as well.

2. The International Economic Situation

The devaluation of the pound sterling and the efforts of the US to narrow the gap in its balance of payments have affected the world economic situation at the end of 1967 and the beginning of 1968. The continuation of the recovery which has taken place in the developed countries, after a certain stagnation or regression during the preceding two years, depends, of course, on the results of these measures. It may be expected that the Gross National Product of the developed countries will be about 4—4.5% higher in 1968 than in 1967, when it grew by only 3%, mainly towards the end of the year.

The volume of international trade grew by 5% in 1967 over 1966, and in 1968 it is expected to grow by 7%! The projected series of customs reductions from 1968 onwards; as a result of the GATT-Kennedy Round and various other internal agreements, especially that of the European Economic Community, will probably give a considerable impetus to world trade. Between 1970 and 1972, the customs tariffs of industrial countries will be reduced by 35—50% under the Kennedy Round agreements, but the imports of the developed countries may already be expected to grow in 1968. This implies an increase in the exports of developing countries, which generally produce primary commodities.

TABLE 3. Annual Growth of GNP in Industrial Countries, 1960-1968 (in percentages)

	All countries	USA	Canada	Japan	Great Britain	France	West Germany	Italy	Other+
1960-65	5.0	4.7	5.5	9.6	3.4	5.1	4.9	5.2	4.9
1965	5.0	5.9	6.9	3.2	2.3	4.2	4.8	3.5	4.1
1966	4.9	5.4	5.9	9.7	1.2	5.0	2.4	5.4	3.2
1967*	2.9	2.5	3.0	11.5	1.3	4.0	-1.0	5.5	2.9
1968**	4.3	4.0	4.0	8.5	4.3	4.5	3.5	5.3	3.2

* Estimate

** Forecast

+ Belgium, Luxemburg, Holland, and all EFTA countries except Great Britain

Source: National Institute Economic Review.

It would seem that Israel might be encouraged by the prospect of such developments, but in fact all members of GATT will benefit from the Kennedy Round tariff reductions, including Israel's competitors. The same applies to the optimistic forecast of the increase in the trade in primary commodities. Hence, it can hardly be assumed that these trends will have a far-reaching effect on Israel's exports, just as the economic recession of 1965—1966 in some of her major export markets did not lead to a considerable reduction in her exports to these countries. This is partly due to the small volume of Israel's foreign trade in relation to the world market and partly to the structure of Israel's exports.

B. PAST DEVELOPMENT OF EXPORTS AND IMPORTS

1. General Background

Ever since the establishment of the State, there has been an import surplus in the current account of the balance of payments. The payment deficit, which amounted to $ 288 million in 1950, declined to $ 241 million in 1954, rose to $ 314 million in 1959, and reached a peak of $ 570 million in 1964. In the slow-down period it declined to $ 452 million in 1966 and $ 485 million in 1967.

The import surplus in goods declined from $ 284 million in 1950 to $ 208 million in 1954. As a result of the rapid growth of imports in 1960 — 1964, the surplus rose to about $ 392 million in 1964, but fell during the economic recession to $ 140 million in 1967.

In 1950 — 1967 there was a continuous rise in the import surplus of services, which reached $ 320 million in 1967 as compared with $ 24 million at the beginning of the period. The import of services is greatly influenced by the import of Government services, which are mainly defence services. In 1965 — 1967 this item grew substantially, with the results, as noted, of an increase in the import surplus of services.

The import surplus made possible a high level of investment and consumption and facilitated the rapid growth of the economy. It was feasible owing to the magnitude of net capital imports, which totalled more than $ 7 billion during the years 1950 — 1967. Seventy per cent of these capital imports were unilateral transfers, and the rest were short- and long-term loans and investments from abroad.

Sources of foreign currency in 1950 — 1954 were inadequate; exchange reserves were exhausted and strict administrative control was exercised over the allocation of foreign currency. In 1955 — 1959 the receipts from the sale of Israel Bonds and philanthropic sources rose. The share of unilateral transfers reached a peak, with contributions supplemented by reparations and personal restitution from Germany. Towards the end of this period, foreign currency reserves began to be accumulated. In 1964 — 1966 — a peak period from the point of view of economic growth — another high point was reached. In this period there was a significant decline in the share of unilateral transfers and an increase in the share of long- and medium-term loans and of investments. After the Six-day War, sales of Development Loan Bonds soared, and in spite of increasing expenditure on defence foreign currency, balances rose to $ 845 million by the end of 1967.

A declining trend is discernible in the share of the import surplus in total resources for the years 1950 — 1960. This change, plus the accumulation of foreign currency reserves, reflects a trend towards reducing the dependence of the economy on capital imports.

Exports of goods and services grew rapidly at a rate of about 25 % annually from $ 35 million in 1950 to $ 267 million in 1959, and went on to reach $ 620 , million in 1964 and $ 864 million in 1967. While exports were growing, their composition was changing as well. The share of industrial exports and services rose, while that of agriculture declined. The rapid growth of exports is also reflected in their increasing share in the utilisation of resources — from 7 % in the early 1950s to about 20 % in the later years.

TABLE 4. Imports, Exports, and the Import Surplus in Selected Years
($ millions) 1950—1967

	Imports*			Exports*			Import Surplus		
	Goods	Services	Total	Goods	Services	Total	Goods	Services	Total
1950	299.0	34.0	333.0	35.0	10.0	45.0	264.0	24.0	288.0
1954	296.0	79.0	375.0	88.0	46.0	134.0	208.0	33.0	241.0
1959	379.9	201.2	581.1	176.5	90.3	266.8	203.4	110.9	314.3
1964	741.0	447.5	1,188.5	342.4	269.8	619.2	391.6	177.7	569.3
1967	655.0	660.0	1,350.0	515.0	340.0	865.0	140.0	320.0	485.[illegible]

TABLE 5. Imports and Exports: 1950—1967. Average Rates of Growth by Period
(Percentages)

1950—1954	-0.3	23.4	3.0	25.9	38.2	31.4
1954—1959	5.1	20.6	9.2	14.9	14.4	14.8
1959—1964	14.3	17.3	15.4	14.6	24.5	18.3
1964—1967	-4.0	13.8	4.3	13.8	8.0	11.8
1950—1967	4.7	19.1	8.5	17.1	23.0	19.0

* Net imports adapted to the balance of payments: c.i.f. for 1950—57, f.o.b. for 1958—67. Exports f.o.b. for 1950-57. Exports - f.o.b. net, adapted to the balance of payments.

The estimated balance of payments for 1967 is based on the figures of the Central Bureau of Statistics as published in its Monthly Bulletin No. 1 of February 1968. The estimates of the balance of payments, especially those relating to services, are provisional, and no doubt there will be changes when more up-to-date figures are obtained. Figures received after the plan went to press may produce a somewhat lower estimate of the import surplus for 1967.

The estimate of total imports in 1967 includes imports from the administered areas, totalling $35 million. The estimate of total exports for 1967 includes exports of $10 million to the administered areas. Owing to shortage of adequate statistics, it was impossible to separate accounts for goods from those for services in exports to, or imports from, the administered area. The separate estimates of exmports and imports of goods and services do not, therefore, include the data for trade with these areas.

Figures for goods imports are given in this chapter on an f.o.b. basis, according to which transport and insurance charges are deduced. Payments to foreign factors for these services are given under imports of services, and payments to local factors for transportation and insurance, have, likewise, been deducted from the figures for goods exports.

TABLE 6. Import Surplus and its Share in Resources* at the Disposal of the Economy, 1950-1967
(Annual Averages by Sub-periods: Current Prices)

	1950-54	1955-59	1960-64	1965-67
Resources at the disposal of the economy (IL millions)	1,335.0	3,728.0	7,962.0	12,984.0
Import surplus ($ millions)**	292.5	324.9	440.7	490.6
Import surplus as percentage of resources	18.7	16.4	14.6	11.5

* Resources are national product and import surplus.
** Import surplus in dollars calculated at official exchange rates.

Source: Central Bureau of Statistics.

Poor in natural resources, Israel has needed extensive and varied imports, which totalled approximately $ 1,350 million in 1967 — more than four times the sum for 1950. Imports constituted an average of about 30 % of the national product during the years 1950 — 1959, rising to an average of 35 % in recent years. The composition of imports has changed, the share of services increasing and that of merchandise declining. The composition of merchandise imports has also changed, the share of consumer goods in the total declining from 32 % in 1950 to about 10 % in 1967. During the same period, the share of production inputs rose from 46 % to 70 %, and the share of investment goods fluctuated between 17 % and 25 %.

Total imports grew slowly during the early years owing to restrictions on imports and a shortage of foreign currency, rising from $ 333 million in 1950 to $ 375 million in 1954. In 1955 — 1964, a period of rapid economic expansion, the growth of imports was accelerated, particularly in 1960 — 1964, and amounted to about $ 580 million in 1959, $ 1,200 million in 1964, and $ 1,350 million in 1967.

TABLE 7. Annual Averages of Imports and their Share in National Product, by Period: 1950-1967
(Current Prices)

	1950-54	1955-59	1960-64	1965-67
Imports ($ millions)	379	531	933	1,288
Percentage of Imports inGNP	30.5	32.3	35.4	34.1

Source: Central Bureau of Statistics.

TABLE 8. Annual Averages of Exports and their Share in Resources: 1950-1967
(Current Prices)

	1950-54	1955-59	1960-64	1965-67
Total resources (IL millions)	1,335	3,728	7,962	12,984
Total exports ($ millions)	87.0	305.5	490.4	798.0
Exports as percentage of total resources	7.2	10.2	16.5	19.8
Percentage growth of exports	35.9	16.8	13.2	7.8

Source: Central Bureau of Statistics.

2. Exports

Total exports rose steadily and substantially from $ 45 million in 1950 to $ 865 million in 1967. The share of exports in the national product increased continuously, while the ratio of total exports to total imports rose dramatically from 13.5 % in 1950 to 65 % in 1967. These facts illustrate the progress made by the Israel economy in reducing its dependence on foreign resources for financing imports.

Although the level of exports is continuously increasing, the annual growth rate has slowed down, mainly owing to difficulties involved in entering new markets and the intensified competition in existing markets. Increased local demand and increased production costs have also served to limit the rise in exports. However, it is worth noting that fluctuations in the growth rate were caused, for the most part, by fluctuations in exports of citrus and diamonds, which are heavily influenced by events in the world market at large.

Exports of goods exceeded exports of services throughout the period. Whereas in 1954 — 1959 services were one-third of total exports, their share in 1960 — 1964 rose to more than 40 % of the total.

(a) Exports of Goods[1]

1) Industrial Exports

The share of industrial exports in total goods exports rose from 50 % in 1950 to 67 % in 1959, and to 80 % in 1967. Industrial exports rose throughout the period under discussion from approximately $ 18 million in 1950 to $ 375 million in 1966 — an average annual rate of increase of about 21 %.

Since 1962 the slow-down in the growth of industrial exports has been partly due to the boom in the local market and partly to the reduced competetiveness of exports. Most of the increase in industrial exports was contributed by industries depending heavily on local raw materials, know-how, or skilled manpower peculiar to Israel. Outstanding among these are diamonds, minerals, citrus preserves, and products of the defence system. Industries with a surplus productive capacity relative to local demand and those whose products get higher prices on the local market than abroad, also contributed to the export increase.

The variety of products exported was greatly increased between 1950 and 1966. No significant change took place in the share of diamonds in exports, but the share of other groups (particularly foodstuffs) declined. The advantage of increased variety lies in the reduced risks of concentration, but its disadvantage lies in the fact that is does not permit of specialization. Diversification necessitates entry into branches in which the profitability of exports may be low. Although the volume of goods exported has risen, concentration is still quite high, and fluctuations in diamond exports cause fluctuations in the whole of industrial exports.

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[1] After adaptation to the balance of payments by the deduction of items like personal effects of diplomats and tourists, commercial samples, gold, leased equipment, cinema films, etc., and the deduction of local expenses from the value of imports.

Diamonds

Diamonds are Israel's major export industry; practically the entire output is destined for export. Exports of diamonds amounted to $ 9 million in 1950, and climbed to $ 165 million in 1966. The share of diamonds in total industrial export has been more or less stable throughout the period. The continuous rise in diamond export values during the period (with the exception of 1967) stems from a rise both in the volume of exports and in prices. The volume of exports increased owing to the rising demand for diamonds in the world market and the growth in Israel's share in international trade in polished diamonds. Israel accounts for over 80 % of the world market for medium-sized diamonds, and is second in importance only to Belgium in international diamond production and trade.

The Government has facilitated the development of this industry by encouraging the establishment of plants in development areas and supporting the training of workers, and a Government company for the purchase of crude diamonds was set up. Some purchases are made outside the framework of the London syndicate.

Other Industrial Goods

Exports of goods other than diamonds in the period rose from $ 9.3 million in 1950 to about $ 257 million in 1967.

In the early years, exports other than diamonds were concentrated in a small number of branches, mainly foodstuffs, textiles, clothing, and motorcars. The rapid growth of industrial exports is explained mainly by the introduction of additional export products, such as tires, plywood, cement, various chemicals, and metal products. Particularly high growth rates were registered in mines and quarries, leather and footwear, metal products, textiles, printing and publishing, and foodstuffs.

Exports of minerals increased rapidly during the period and reached $ 29 million in 1966, as compared with only $ 1 million in 1955. This increase was made possible by large investments, financed mainly by the Government, in the Dead Sea Potash Works, the Timna Copper Mines, and the Phosphates Works in Oron.

Exports of processed foodstuffs rose from $ 6 million in 1956 to about $ 35 million in 1966. The main items exported are: citrus products, vegetable and fruit preserves, and edible oils (including oil cakes). Citrus preserves enjoy the advantage of large citrus supplies and earn a high rate of added value. These exports amounted to $ 20 million in 1966, compared with $ 3.8 million in 1965, mainly as the result of the increased citrus surpluses available to the processing plants.

Exports of textiles, clothing, and leather grew at a relatively high rate to $ 46.5 million in 1966 and amounted for more than 20 % of total industrial exports other than diamonds. The Government's industrial development policy has given a prominent place to the expansion of the textile and clothing industries, granting them preferred treatment as regards loans, grants, support in training workers, tax exemptions, and other incentives, as a means of increasing employment, especially in development areas and expanding exports. In the early years the principal

TABLE 9. Exports of Goods in Selected Years 1950-1967

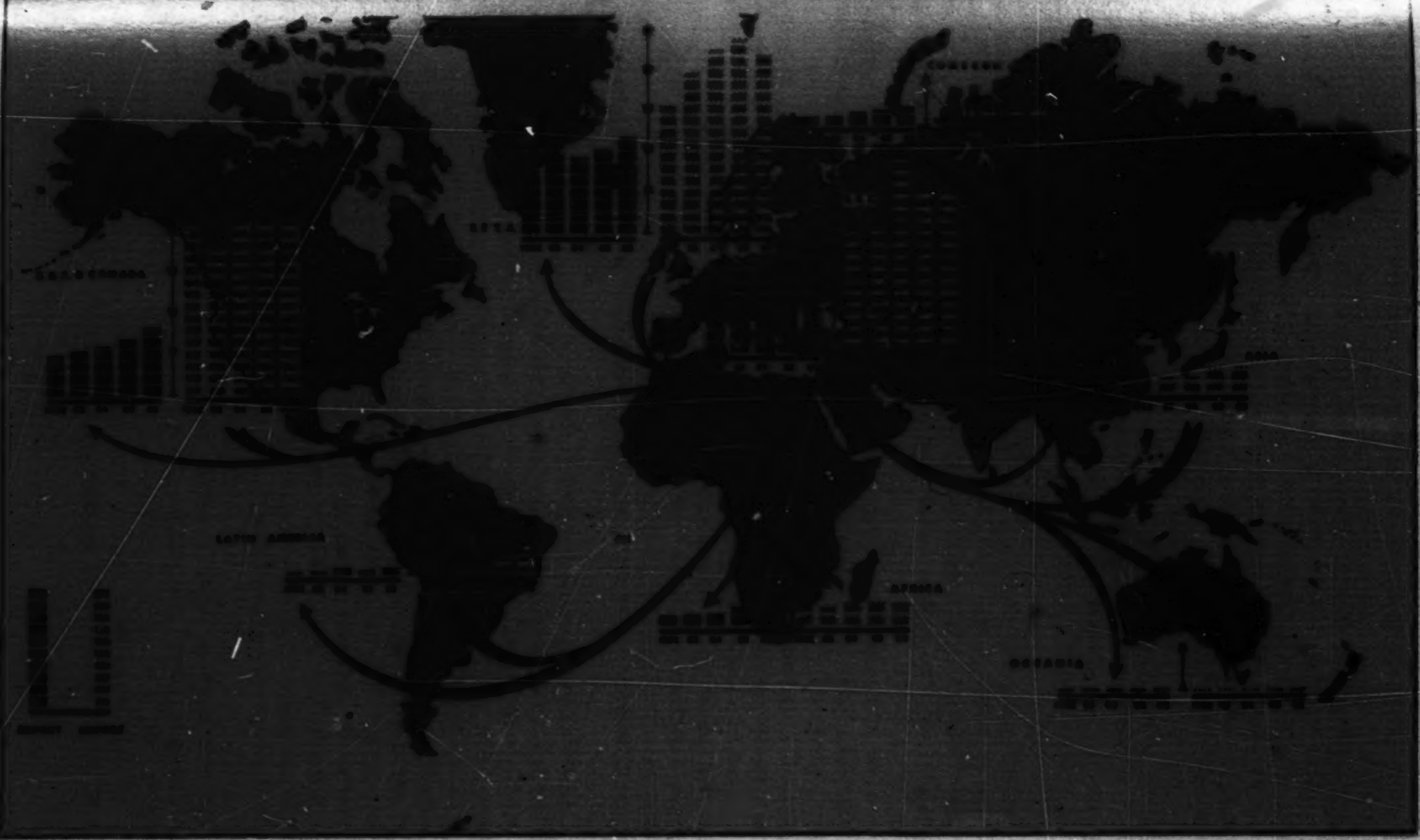
	Total net export* adapted to balance of payments	Total net export before adaptation to balance of payments	Agricultural exports			Industrial exports			
			Total agricultural exports	Citrus	Other agricultural exports	Total** industrial exports	Diamonds (net)	Other industrial exports	
								Total other industrial exports	Ships and Airplanes only
a. Exports of goods ($ millions)									
1950	35.0	35.1	17.0	16.8	0.2	18.1	8.8	9.3	..
1954	88.0	86.3	35.8	33.5	2.3	50.5	15.7	34.8	..
1959	176.5	177.1	58.1	45.9	12.2	119.0	45.1	73.9	0.9
1964	349.4	352.9	66.7	52.8	13.9	286.2	118.2	168.0	2.1
1967	*515.0	519.9*	106.0	83.7	22.3	413.9	157.9	256.0	26.0
b. Percent of annual average change									
1950 – 1954	25.9	25.2	20.4	18.8	84.1	29.2	15.6	39.1	..
1954 – 1959	14.9	15.5	10.2	6.5	33.3	18.7	23.5	16.2	..
1959 – 1964	14.6	14.8	2.8	2.8	2.5	19.2	21.3	17.8	18.5
1964 – 1967	13.8	13.8	16.7	16.6	17.1	13.1	10.1	15.2	32.5
1950 – 1967	17.2	17.2	11.4	9.9	31.9	20.2	18.5	21.5	..

* Including exports to occupied areas.

** Including unrequited export of ships.

Source: Central Bureau of Statistics.

EXPORTS & IMPORTS BY AREAS (in million $)


U.S.A. & CANADA
EFTA
COMECON
ASIA
LATIN AMERICA
AFRICA
OCEANIA
EXPORT
IMPORT

aim was the development of primary production, especially spinning; later, the emphasis was shifted to weaving, ready-made clothing, and knitwear.

Exports of textiles were $ 37 million in 1966. The increase was facilitated by the encouragement of investment through incentive payments.

Exports of leather and footwear were nearly $ 2 million in 1966. This branch has grown substantially in recent years, mainly because of the growth in the manufacture of fur and leather clothing, which are achieving a high reputation in world markets. Almost all of these products are made for export or sold to tourists in Israel.

Exports of wood products brought in $ 7.5 million in 1966, of which $ 7.2 million came from the sale of plywood. Plywood exports grew rapidly in the years 1956—1959, but have not grown significantly since, owing to a rise in local demand and difficulties involved in marketing in Britain, which is the main purchaser.

Exports of printing and publishing products grew in the period discussed, and reached $ 2.8 million in 1966; there was a rapid rate of growth in 1956—1964. Printing services in Israel may have advantages in export, especially in publications requiring the use of several languages and special signs, as in scientific texts.

The export of rubber and plastics grew in 1956—1966 at an average annual rate of 12%, and totalled $ 12.1 million in 1966. Growth was rapid in the earlier years of the period, but slowed down considerably in 1959—1966. The most important item in this branch of industry is tires; 50—60% of production is destined for export, although Israel has no raw materials for this industry and the two plants are on a relatively small scale. The increase in the export of tires was largely halted in 1963 owing to intensive competition in export markets, the closure of markets in countries with which trade agreements had existed, increased local production in Africa and Asia, and the erection of customs barriers in the European Market countries.

The export of chemicals (excluding refined petrol) reached $ 14.5 million in 1966. Large changes were effected in this branch as the result of the development of new products, such as bromine and its products, petrochemical products (polyethylene, P.V.C.), insecticides, detergents, cosmetics, and light chemicals. Bromine was first exported in 1959, following the activation of the plant in Sodom, and involved considerable marketing difficulties. An affiliated company to process crude bromine was set up in order to expand export. In 1966, exports of bromine and its by-products reached $ 2.5 million. Exports of petrochemical products (P.V.C., polyethylene and carbon black) started in 1964, following the establishment of petrochemical plants in Haifa and Acre. Exports of pharmaceuticals and insecticides grew rapidly in recent years, amounting to $ 4 million and $ 1.9 million respectively.

Exports of the metal industries (base metals, metal products, machinery, electric appliances, electronic equipment, and transportation equipment) rose from $ 11 million in 1956 to $ 38 million in 1966. This is the highest growth rate of any industry — an annual average of 33%: from $ 1 million in 1956 to almost $ 16 million in 1966. Most exports stem from the defence industries. The metals industry is capable of expanding exports greatly in both quantity and variety.

The most important items of export in metals are: metal pipes (especially steel pipes for irrigation and industry), and scrap metal. Exports of pipes stood at $ 3 million in 1966. Exports of scrap metal (especially copper) have increased in recent years, mainly owing to the rising price of copper. Exports of machinery and electrical and electronic equipment reached about $ 4.5 million in 1966, as compared with only $ 1 million in 1956. The development of electronic equipment and components began only in recent years. Growth was limited in the export of machinery with low added value such as radio sets and components, refrigerators and their components, air conditioners, and the like, because of relatively high costs and severe competition in world markets.

2) Agricultural Exports

During the Mandatory period and the first few years of statehood, agriculture was the main source of exports, citrus accounting for nearly the entire total. The share of agriculture in total exports has declined, owing to increasing utilization of the country's agricultural potential and a shift in emphasis from agriculture to industrial development. Between 1950 and 1967, agricultural exports rose from $ 17 million to $ 106 million, but their share in the total of goods exported declined from 50 % to 20 %. About one-fifth of agricultural produce is exported, but in citrus 65 — 80 % of fresh fruit are sold abroad.

Exports of citrus fruit have risen almost five-fold, at an uneven pace. In 1949 — 1953 the rise was slight, but exports more than doubled between 1953 and 1957, as a result of increased quantities and higher prices. In 1957 — 1962, quantities expanded moderately, while prices declined, so that the value of exports did not expand. Starting in 1962 exports grew rapidly again, mainly owing to rapid increases in quantities — stemming from new investments in citrus groves in previous years.

Agricultural produce and exports, other than citrus fruit, developed rapidly between 1957 and 1961. Poultry produce — mainly eggs — expanded greatly, a peak in exports — $ 13 million — being reached in 1961, but a decline set in thereafter and the total for 1967 was $ 8 million. As explained in the chapter on agriculture, this decline resulted from the Government's decision to limit support because of unprofitability and marketing limitations in the Common Market countries. In recent years there has been a change in the structure of poultry exports owing to increased export of eggs for hatching, chicks, and insemination materials — which are more profitable — and reduced export of eggs for direct consumption.

The export of raw cotton began in 1962, when production exceeded the absorption capacity of local spinning mills. Exports grew gradually and reached about $ 5 million in 1967.

Exports of other items with potentialities due to Israel's comparative advantages in their production, e. g., vegetables, fruit, melons, flowers and seeds have expanded slowly, reaching $ 6 million in 1967. The Government has recently started to encourage this type of export by incentives and direct measures on fairly large scale, which should yield positive results in the future.

(b) Exports of Services

Exports of services rose from some $ 10 million in 1950 to about $ 45 million annually in 1952—1954, doubled between 1954 and 1959, and grew rapidly in the next five years—from $ 126 million in 1960 to $ 345 million in 1966, the average annual growth from 1950 to 1967 being 23 %. They consist mainly of transportation, insurance, and capital services. The export of private and governmental services, e. g., engineering and know-how, to developing countries, should also be noted.

1) Transportation Services

This is the most important branch of service exports, rising from $ 24 million in 1952 to about $ 110 million in 1967, though its share in total export of services declined during the period from 57 % to 32 %. Exports of shipping services rose faster than those of airline services, owing to the notable increase in freight transportation between foreign ports. Air passenger transports rose from $ 12.6 million in 1959 to $ 30.0 million in 1966. The growth of maritime passenger transport was slow, receipts rising from $ 7.3 million in 1959 to $ 11.1 million in 1966.

2) Tourist Services

Tourist services have been the second most important branch in this field since 1958. Income from tourism rose from $ 2.5 million in 1952 to $ 12 million in 1958 and then to $ 59 million in 1966, the number of tourists increasing from some 33,000 in 1950 to 328,000 in 1966.

3) Capital Services

This item has grown from $ 1 million in 1952 to about $ 48 million in 1966. This includes interest on Israeli investments abroad, as well on direct Government loans to foreign borrowers.

(c) Export Encouragement Policy

The Government has taken several steps to offer opportunities for higher returns to exporters. The most important such incentive in 1953—1957 was the "Pamaz" system whereby exporters (especially of industrial products) could hold their foreign exchange in special bank deposits and use them to purchase of raw materials for production both for export and for the local market. Direct incentives have expanded considerably since 1956, and they encompassed most export branches, with the exception of the citrus and service branches, as well as diamonds, for which there was a special arrangement. The ordinary incentive was designed to increase added value in foreign currency, and the incentive rose from IL 0.5 in 1956 to IL 0.85 in 1959 per dollar of added value.

From 1959 until 1962, incentives were added according to specific arrangements. After the 1962 devaluation, up to 1965, most of the incentive arrangements were abolished, and a uniform exchange rate was set for most export transactions. In this period, direct incentives for export were of secondary importance in export-encouragement policy, and existed in only a few branches: textiles and clothing, plywood, leather goods, and several agricultural products. In the past two years, indirect taxation has been refunded to producers of export products in order to encourage exports.

The incentives system in industry differs from that in agriculture. In industry, differential tax refunds are granted on the gross value of exports, taking into account the various ratios of added value. After the adjustment in the exchange rate in 1967, the repayment was fixed as follows: for industrial goods with added value of up to 24% — including diamonds and petrol — no repayment of indirect taxes; for goods with added value between 25% and 44%, a tax refund of 10 agorot per gross export dollar; where the added value is 45—64%, a refund of 20 agorot per gross export dollar; in the last group, where added value rates are over 65%, 35 agorot were repaid per gross export dollar.

In agricultural exports, a large portion of the incentives is designed to ensure a minimum export price, and they are granted in order to prevent losses in exports. Other incentives are given to support branches which still export on a small scale but which can, in the opinion of the Ministry of Agriculture, expand. These incentives are given from a fund for the encouragement of exports.

Support from the Local Market. High prices in the local market, fixed under monopolistic conditions, enable some producers to increase their exports. The exporter thus benefits, in addition to direct incentives, by being permitted to raise the local price of his product.

Clearing Agreements. These provide another method of support for exports. Within the framework of these agreements, Israel undertook to import goods from other countries in order to facilitate exports to those countries. Under such agreements, import and export prices were usually higher than those in force in the international market. The clearing agreements were of great importance in 1953—1955, when they covered about 60% of industrial exports other than diamonds. Later, their importance declined, and in 1966 agreements were still in force with only 10 countries — half of them in Eastern Europe. Exports to these countries in 1966 constituted about 20% of total industrial exports other than diamonds.

Reducing Costs of Individual Producers. Another way to encourage exports was to extend support designed to reduce the individual producer's costs. These measures became important following the abolition of premiums in 1962. The support takes the form of financing exports in both local and foreign currencies, by supplying credit for working capital at interest rates well below prevailing rates, by absorbing part of transportation and port costs, and by participating in the cost of foreign trade risks, publicity, and market research. The Government also provides relatively easy terms of finance for investments in projects designed for export.

3. Imports

The rapid growth of Israel's economy was accompanied by increased imports. Imports rose moderately from $ 333 million in 1950 to $ 375 million in 1954. Later, they rose more rapidly and reached $ 535 million in 1957. The volume of imports remained fairly stable in 1958—1960, at the end of which period they totalled $ 580 million, but grew in 1961—1964 at an annual average rate of about 15% — from $ 669 million in 1961 to approximately $ 1,190 million in 1964. Since 1965, as a result of the slow-down policy, the rate of growth has slackened: total imports were $1,272 million in 1966 and $ 1,350 million in 1967.

The composition of imports has changed over the period, the share of services rising from 10% in 1950 to 35% in 1959 and 50% in 1967.

(a) Import of Goods

Import of goods was $ 300 million in 1950, rising to about $ 380 million in 1959, and to $ 740 million in 1964. In 1967, the total import of goods was $ 655 million.

In examining imports by economic use, we find a declining trend in consumer goods — from 32% in 1949 to 9% in 1959 — and a rising trend in production inputs — from 46% to 73% — in the same period. In the years 1960—1967, — 9—10% of the total — and so did the share of production inputs — 70%. Throughout 1949—1967 the share of imports for investment remained relatively stable, at between one-fourth and one-sixth of the total.

The relatively high share of investment goods in imports can be explained by the fact that conditions are not yet favorable for their production at home.

1) Consumer Goods

Imports of consumer goods declined from about $ 77 million in 1950 to $ 41 million in 1959, but increased between 1960 and 1966 to $ 88 million towards the end of the period. The over-all decline in imports in 1967 is reflected in consumer goods as well, which went down to $ 74 million. The major part of consumer goods is foodstuffs — mainly imported by the Government. The limited import of durable consumer goods was influenced by two factors. Until 1962 it was limited by adminstrative protection in the form of import licensing. In 1962, with the liberalization of imports, fiscal protection was substituted for administrative protection, and most consumer durables were subjected to extremely high taxation. On the other hand, private incomes rose during the period, which caused increased imports of consumer goods. Durables constitute about 25% of all consumer goods imported.

TABLE 10. Import of Goods* by Economic Destination in Selected Years: 1950-1967

	Total net imports adapted to balance of payments	Total net imports before adaptation to balance of payments	Import of consumer goods			Imports of production input	Import of investment goods		
			Total	Current consumption	Durables		Total	Ships and planes	Other investment goods
a. In millions of dollars									
1950	299.0	300.3	76.7	64.0	12.7	141.7	81.9	4.2	77.7
1954	296.0	287.2	48.6	42.6	6.0	190.2	48.4	4.5	43.9
1959	379.0	427.3	40.7	29.3	11.4	311.6	75.0	14.2	60.8
1964	741.0	815.5	82.5	55.0	27.5	535.6	197.4	59.9	137.5
1967	655.0	733.6	73.7	55.6	18.1	532.4	127.5	34.1	93.4
b. Percentages of average annual growth									
1950 – 1954	-0.3	-1.1	-10.8	-9.7	-17.1	7.6	12.3	1.7	-13.3
1954 – 1959	5.1	8.3	-3.5	-7.2	13.7	10.4	9.2	25.1	6.7
1959 – 1964	14.3	13.8	15.2	13.4	19.2	11.4	22.6	23.7	17.7
1964 – 1967	-4.0	-3.5	3.7	0.4	-10.0	-0.2	-13.6	-17.1	-12.0
1950 – 1967	4.7	5.4	—	-0.8	2.1	8.1	2.6	13.2	1.1

* Net imports less repayments

Sources: Central Bureau of Statistics.

2) Production Inputs

A significant increase took place in the share of intermediate production inputs in total goods imports — from 47 % in 1950 to over 70 % in 1959, and the percentage ranged between 65 % and 70 % in 1960 — 1967. The value of this item rose from $ 143 million annually to $ 311 million in 1959, and continued to rise to $ 532 million in 1967. This increase reflected the process of "deepening" production, more stages of production being carried out within the economy, with a consequent decline in the share of finished goods in imports.

3) Investment Goods

Imports of investment goods declined in 1950 — 1954 from $ 82 million to $ 48 million, and rose to $ 75 million in 1959. A considerable increase took place in 1961 and 1964, when imports of investment goods reached $ 150 million and $ 187 million, respectively. They declined to $ 130 million in 1967.

(b) Imports of Services

Imports of services rose from $ 34 million in 1950 to $ 660 million in 1967. This increase is far larger than that in goods imports, and as a result the share of service imports in the total rose from 10 % in 1950 to about 50 % in 1967.

Imports of services grew at an average annual rate of 23 % in 1950 — 1954, and totalled about $ 80 million in 1953 — 1954. The growth rate slowed down somewhat in 1955 — 1959, to an average of 21 %, and the total was $ 200 million in 1959. In the following years the growth rate continued to decline, service imports reaching some $ 450 million in 1964, $ 540 million in 1966, and $ 660 million in 1967.

Imports by the Government and the National Institutions always occupied the first place in imports of services, amounting to $ 195 million in 1966. The main component of Government expenditures on this item is imports for defence purposes. The strengthening of defence, especially in the 1960s, involved defence expenditures abroad, and they reached a peak in 1967, but their share in total imports of services fell from 42 % in 1952 to 36 % in 1966. In 1967 this item rose to 45 % of total service imports in that year.

The share of capital services in service imports rose from 18 % in 1952 to 22 % in 1966 (about $ 120 million), as a result of increased interest payments on the Government's foreign debts, and stood at $ 140 million in 1967.

Imports of insurance services constituted about 16 % of total service imports in 1952 ($ 11.5 million) and the proportion declined to less than 10 % in 1967 ($ 60 million).

Expenditure on travel abroad — which depends largely on the Government's foreign currency control and travel policy — rose from $ 1.3 million in 1952 to about $ 45 million in 1967, its share in total imports declining from 18 % in 1952 to 7 % in 1967.

Imports of transportation services rose during 1957—1967 almost eightfold, reaching $ 114 million in 1967. Most of this expenditure is for port services for Israeli vessels and planes abroad.

(c) Import Policies and Protection of Local Production

Throughout the period discussed, the Government influenced the dimensions and composition of imports. Its policy was dictated by the need to adapt the composition of imports to economic growth, by difficulties in financing imports, and by the policy of encouraging local production.

The means employed to influence the volume and composition of imports were: foreign currency control; administrative control over imports; direct imports by the Government; directing import transcations to countries with which trade agreements existed. Another method, the importance of which increased continuously, was the setting of import prices by the Government. The system of import prices was characterized, for most of the period, by two facts: (a) there was differential pricing among different categories of imported products; (b) import prices rose less than prices of exports and of locally produced goods for local consumption.

Until 1955 there were several formal exchange rates, and the import of vital products and investment goods could be subsidized by varying the application of different rates. The formal exchange rate was raised to IL 3.00 per dollar in 1962, and again to IL 3.50 per dollar in 1967.

Customs policy throughout the period has been based on three major principles: (a) the maintenance of low tariffs on the import of investment goods; (b) the encouragement of local production by fixing relatively low tariffs in comparison with tariffs on finished goods on raw materials and various production components; (c) the maintenance of low tariffs on essential products and higher tariffs on luxury goods.

Until 1962, the Government's import policy was designed to offer maximum protection to local production by means of administrative restrictions (import licensing) and protective customs duties. The 1962 devaluation brought about considerable changes in the effective exchange rates on imports. Many tariff rates were reduced simultaneously with the formal change in exchange rates, but those rates that had been higher than average before devaluation remained higher thereafter. Hence, the effective burden on the import of investment goods was low, while the burden on goods for current consumption was high.

Simultaneously with devaluation, a "liberalization policy" was declared in 1962, one of whose main aims was to do away with administrative controls to protect locally produced goods. In 1956—1961, the aim of high customs tariffs was to absorb excess gains accumulated by importers as a result of the rationing of imports. This policy did not change import prices, nor did it affect the efficiency of the allocation resources in the economy. The aim from 1962 and onwards was to shift, first from administrative to fiscal protection, and, second, gradually to lower customs duties, while unifying the various exchange rates for imports. These measures were intended to introduce a more efficient allocation of resources and higher productivity.

C. IMPORTS AND EXPORTS DURING THE PERIOD OF THE PROGRAM

1. General

One of the main aims of Israel's development plan is to reduce the country's dependence on capital imports while accelerating economic growth and raising employment.

The development plan envisages a reduction in the import surplus in the current account of the balance of payments to about $400 million in 1971, as compared with some $485 million in 1967[1] and about $570 million in 1964. This surplus stems from the difference between total imports, which will amount to $1,920 million in 1971 (as against $1,350 million[1] in 1967), and total exports, which will reach about $1,525 million (compared with $865 million in 1967).

The balance of trade deficit[3], which stood at $140 million in 1967, will climb to about $235 million in 1971 — still a lower deficit than in the period 1961—66, and similar to the deficit in 1960.

On the other hand, the deficit in the services accounts will fall to $160 million in 1971, in comparison with $320 million in 1967 and some $200 million in 1966. This decline is anticipated as a result of increased export of services — mainly transportation and tourism services — by 85%, along with a slower growth (by about 20%) in imports of services. Increases in Government services imports will be modest owing to the high level of the base-year 1967. Interest payments abroad will change very little owing to the stabilization in the level of outstanding external debts.

It should be emphasized that projections and plans concerning the import surplus are necessarily subject to change in view of possible changes in Israel's consumption for defense purposes and in the financial terms under which such consumption will be carried out.

The share of the import surplus in total product will decline from about 12% in 1967 to 7% in 1971, reflecting the declining dependence of the economy on capital imports.

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1) The estimated balance of payments for 1967 is based on the figures of the Central Bureau of Statistics as published in the Monthly Bulletin No. 1 of February 1968. The estimates of the balance of payments, especially those relating to services, are provisional, and no doubt there will be changes when more up-to-date figures are obtained. Figures received after the plan went to press may produce a somewhat lower estimate of the import surplus for 1967.

2) The estimate of total imports in 1967 includes imports from the administered areas, totaling $35 million. The estimate of total exports for 1967 includes exports of $10 million to the administered areas. Owing to shortage of adequate statistics, it was impossible to separate accounts for goods from those for services in exports to, or imports from, the administered areas. The separate estimates of exports and imports of goods and services do not, therefore, include the data for trade with these areas.

3) Figures for goods imports are given in this chapter on an f.o.b. basis, according to which transport and insurance charges are deducted. Payments to foreign factors for these services are given under imports of services, and payments to local factors for transportation and insurance have, likewise, been deducted from the figures for goods exports.

TABLE 11. Israel's International Balance of Payments, 1965 — 1967 and 1971
($ million, and percent)

	Millions of Dollars				Percentage Annual Growth	
	1965	1966	1967	1971	1964-67	1967-71
1. Trade account						
a. Import of goods (f. o. b.)	731.0	731.1	655	1.130	-9.0	14.6
b. Export of goods (f. o. b.)	404.0	474.5	515	895	13.8	14.8
c. Import surplus in trade accounts	327.0	256.6	140	235	-28.4	13.8
2. Services account						
a. Services imports	514.7	540.5	660	790	13.8	4.6
b. Services exports	306.7	345.1	340	630	8.0	16.7
c. Import surplus in services account	208.0	194.4	320	160	21.8	-15.9
3. Total import of goods and services	1,245.7	1,271.6	1,350	1,920	4.3	9.2
4. Total export of goods and services	710.7	819.6	865	1,525	11.8	15.2
5. Import surplus on current account	535.0	452.0	485	395	-5.2	-5.0
6. Net capital account						
a. Unilateral transfers	347.9	306.3	500	370	12.5	-7.3
b. Capital movements (medium- and long-term)	235.2	175.9	270	135	-0.6	-15.9
c. Total a + b	583.1	482.2	770	505	-7.1	-10.0
d. Short-term capital movements (net) errors and omissions	-48.1	-30.2	-285	-110		

Source: 1965 - 1967 — Central Bureau of Statistics;

According to the plan, the share of exports in financing imports (which rose from 52% in 1964 to 65% in 1967) will reach 80% in 1971 — i.e., the economy's growing ability to finance its activities will persist. Additional receipts from exports will make it possible both to finance imports required for production and to meet the increase in local demand.

Gross capital inflow in the period planned will be larger than the deficit in current account of the balance of payments. This will permit of stability in the outstanding external debt and provide for increased foreign currency reserves parallelling the growth in imports.

Future developments in foreign trade will be influenced by several exogenous factors in conditions of international trade, on which Israel's influence is negligible — e.g., general conditions in existing or potential world markets, or the extent of capital imports in the near future.

TABLE 12. Financing of Imports, 1960 — 1971

	1965	1966	1967	1971
a) $ million				
Import of goods and services	1,245.7	1,271.6	1,350	1,920
Export of goods and services	710.7	819.6	865	1,525
Unilateral transfers	347.9	306.3	500	370
Medium- and long-term capital movements	235.2	175.9	270	135
Short-term capital movements, monetary institutions, errors and omissions	-48.1	-30.2	-285	-110
b) Per cent				
Import of goods and services	100.0	100.0	100.0	100.0
Export of goods and services	57.1	64.5	64.1	79.4
Unilateral transfers	27.9	24.1	37.0	19.3
Medium- and long-term capital movements	18.9	13.8	20.0	7.0
Short-term capital movements, monetary institutions, errors and omissions	-3.9	-2.4	-21.1	-5.7

Source: 1960-1967 — Central Bureau of Statistics information;

2. Exports

(a) Export Targets

Achieving the aims of the balance of payments — and in particular the reduction of the current account gap to $400 million in 1971 — necessitates expanding exports of goods and services from about $865 million in 1967 to some $1,525 million in 1971. Exports in 1971 are, therefore, planned to exceed the 1967 level by 76%. As a result of increased exports, the share of exports in total resources at the disposal of the economy will rise.

According to the plan, exports of goods[4] will grow from $515 million in 1967 to about $895 million in 1971, and their annual growth rate will therefore be about 15%. The share of exports of goods in total exports will not change substantially during the period and will remain at 55—58%. Exports of services will rise from $340 million in 1967 to about $630 million in 1971, i.e., and overall growth of 85%.

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[4] After adaptation to the balance of payments by the deduction of items like personal effects of diplomats and tourists, commercial samples, gold, leased equipment, motion pictures, etc., and the deduction of local expenses from he value of imports.

The expansion of exports will be carried out by making partial use of the additional resources at the disposal of the economy during the period.

The expansion of exports will be carried out by making partial use of the additional resources at the disposal of the economy during the period. The increase in exports during the plan period should be compared with the increase in 1961—64, not with that in 1965—67, which was a period of economic recession.

In order to guarantee the allocation of sufficient production factors and resources to exports, the Government policy measures described below will be taken. Their success depends on the growth of local demand for consumption and capital goods not exceeding 8% annually. All this will be done while changing the composition of utilization of resources in the direction of increasing capital stock in branches of the economy which will facilitate the production of goods destined for export.

Another necessary condition for the achievement of export targets is the provision of production factors for industry. Apart from the necessary increase in capital stock, which will be achieved from annual investments, and the additional labor force that will be absorbed in production, the utilization of the existing stock of production factors will be streamlined in the economy in general and in exporting industries in particular.

In addition to adapting production to the need for exports, the marketing system, too, will be improved, expanded, and adapted, since in the immediate years ahead, as in the past, most exports will go to Israel's "traditional" markets: Western Europe and North America. Furthermore, any attempt to enter into new markets will necessitate a rearrangement and expansion of marketing.

The successful implementation of all these measures will enable the economy to achieve its aims in exports without the need for additional incentives.

(b) Export Policy

One of the main conditions for achieving export aims in the near future is to make conditions most attractive to producers for export, both for the individual producer and for the national economy. The Government will adopt a policy that will gradually bring about uniform export incentives in order to improve the allocation of resources and the utilization of the stock of production factors.

The aim of the various policy measures will be to eliminate limitations and difficulties which the individual producer cannot cope with on his own. Marketing difficulties facing the individual producer necessitate Government support in organizing export marketing. The fact that in Israel production is carried out in relatively small plants, prevents the individual plant establishing an independent, efficient, and stable marketing system, and such as special departments for sales promotion and market research. Splitting up production also impedes the arrangement of efficient and cheap shipping and air freight and the provision of services to customers.

Various attempts have been made in Israel to overcome these difficulties, and these should go on being made until the best system of organizing marketing and export is found[8]. The Government will continue to support marketing organizations, preferably independent ones, that can solve marketing problems, and has already undertaken to bear some of the expenses involved. This support is also justifiable in view of the fact that a considerable part of marketing activities constitutes a long-term pioneering investment that will benefit all exporters who wish to make use of marketing facilities in the future.

Another area in which the policy to encourage exports will be effective is in the elimination of administrative difficulties involved in exporting. The Government will also encourage economic and technological research on exports which may improve and expand production.

(c) Exports of Goods

Considerable resources will be necessary for the expansion of exports of goods at an annual rate of about 15%, although this rate is not exceptional considering Israel's past experience.

TABLE 13. Exports of Goods by Branches: 1964 — 1967, and 1971 ($ million)

	1964	1965	1966	1967	1971
1. Total industrial export (excluding ships and airplanes)	284.1	318.5	378.4	387.9	725
Of which: 1a. Diamond (net)	118.2	131.8	164.7	157.9	230
1b. Other industrial	165.9	186.7	213.7	230.0	495
2. Total agricultural exports	66.7	86.5	94.9	106.0	170
Of which: 2a. Citrus	52.8	71.2	74.7	83.7	115
2b. Other agricultural	13.9	15.3	20.2	22.3	55
3. Ships and airplanes	2.2	2.7	5.2	26.0	—
4. Total export of goods (net)	352.9	407.7	478.5	519.9	895
5. Total export of goods (in balance of payments)	349.4	404.0	474.5	515.0	895

Source: 1960-1967 — Central Bureau of Statistics.

Rapid expansion of those branches of the economy whose additional production can be exported will facilitate rapid growth of the whole economy while reducing the import surplus in the current account of the balance of

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8) See discussion at the end of the chapter on Industry and Agriculture.

payments. In order for this to be achieved, Israel must make use of her economic advantages. Her comparative advantages have been utilized in the past on a large scale, mainly in two branches: diamonds and citrus, which have been responsible for most of the increase in exports since the establishment of the State. At present their importance as sources of additional export is declining, and most of the contribution must come from branches hitherto considered of secondary importance. The increase in exports of citrus and diamonds, which constituted 50% and 42% of additional exports of goods from 1961 to 1964 and from 1965 to 1967, respectively, will contribute only one-quarter of the additional exports in 1968—71.

The economy's comparative advantages will be utilized to expand exports in the period 1968—71. These advantages are mainly the following: (a) special climatic conditions, which make it possible to expand the export of winter vegetables, flowers, and sub-tropical fruit which may benefit from exclusivity in the markets to which Israel exports, mainly Europe. Geographical conditions also facilitate the export of processed chemical. (b) The utilization of a high component of skilled labor, knowhow, and superior professional qualifications will enable the economy to make more efficient use of its scientific and professional manpower. Thus, branches like fine chemicals, pharmaceuticals, electronics, etc., can be expanded considerably. Agriculture, too, stands to benefit, and exports of crops with a relatively high component of professional labor (insemination materials, seeds and so forth) can be increased. (c) Characterized by small runs, custom-manufacture, original design and high quality can be increased. Where goods require detailed processing and treatment (unlike the standardized production required for other goods), Israel can turns its small scale of production to advantage. Here, too, use will be made of this advantage primarily in industry, in sub-branches such as chemicals, clothing and fashionwear, electronics, and machinery.

It should be borne in mind that these advantages will not be fully exploited by 1971. However, in these years the foundations must be laid for fuller utilization of these advantages in the 1970's.

1) Industrial Exports[6]

Industrial exports will rise in the period discussed by some $337 million. This means an overall growth rate of about 90%, or an annual average of 17% (13.9% on the basis of 1966).

Part of the planned increased in exports of goods will be realized by utilizing surplus production capacity still extant in some industrial plants, but a great part of the increase will involve increasing productive capacity. However, since any essential change of the type desired (and certainly the fruition of new investments) takes time — the initial emphasis will be on the implementation of investment plans and the improvement of the utilization of existing production factors. In the 1970s it will be possible to make use of the additional productive capacity to expand exports. In order to ensure the achievement of the export targets for industry (and other sectors), the Government will enhance opportunities in production for export (as regards both the individual producer and the whole economy).

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[6] Excluding ships and planes; including unrequited exports.

TABLE 14. Main Export Products: 1964—1967 and 1971 ($million)

	1964	1965	1966	1967	1971
1. Diamonds (net)	118.2	131.8	164.7	157.9	230
2. Citrus	52.8	71.2	74.7	83.7	114
3. Chemicals and petrol [oil?]	20.3	25.4	30.4	35.6	93
4. Foodstuffs	30.4	32.3	34.9	36.9	75
5. Other agricultural products	13.9	15.3	20.2	22.3	54
6. Textiles	31.2	31.5	37.0	40.7	52
7. Mines and quarries	18.3	24.6	29.4	29.2	44
8. Machines	10.1	11.7	13.9	12.5	40
9. Clothing	10.0	9.3	7.8	8.6	34
10. Transportation vehicles	2.8	2.6	3.9	4.0	25
11. Rubber and plastics	10.5	10.7	12.2	12.5	22
12. Wood and carpentry	7.1	8.1	7.5	8.7	18
13. Metal products	2.6	2.2	5.1	5.4	15
14. Electric and electronic equipment	1.0	1.6	1.5	2.7	14
15. Leather and footwear	0.6	0.7	1.8	2.5	10
16. Printing and publishing	2.6	2.4	2.9	3.4	10
17. Basic metal and pipelines	4.0	6.6	8.4	6.5	10
18. Minerals and non-metals	3.7	5.0	4.9	4.8	10
19. Paper and cardboard and their products	2.4	2.3	1.8	2.1	5
20. Miscellaneous n.e.s.[6]	8.3	8.7	10.6	13.9	20
21. Ships and airplanes	2.1	2.7	5.2	26.0	—
Total exports of goods (net)	352.9	407.7	478.5	519.9	895
Total exports of goods (f.o.b., net, adapted to the balance of payments)	349.4	404.0	474.5	515.0	895

6) N.e.s. = Not elsewhere specified.

Source: 1960-67 — Central Bureau of Statistics.

Exports of diamonds, which contributed 38% and 45%, respectively, of total addition to industrial exports in 1965 — 1967 and 1961 — 1964, will contribute only 21% in the period planned for. Diamond exports will rise from $158 million in 1967 to $230 million in 1971, and their annual growth rate exports (about 10%) will be lower than in the past. Most of the slow-down in growth stems from the important place occupied by Israel in the diamond market with respect to the type of diamonds in which she has specialized, and the difficulty of expanding the exports of smaller diamonds at the same rate; Israel is currently shifting the emphasis to this latter type of diamond. Israel is unlikely to expand diamond exports in the future at the same rate as in the past, although the absolute annual volume of exports will increase above the level of the last six years.

Other industrial exports will grow from $230 million in 1967 to about $495 million in 1971; the average annual growth rate will be over 20%.

The outstanding feature of other industrial exports[7] is the change in the composition of additions to exports. Whereas in the past this addition consisted for the most part of mineral products (potash, cement, copper, phosphates), petrol, citrus products, and the various branches of textiles, the main additions in the planned period will be from branches such as chemicals, machinery and clothing (see Table).

In 1965—67 there were nine branches whose weight in increments to exports was over 2%; in the period 1968—71 this number will grow to 15, each exporting over $5 million in 1971. Some of the export industries suffer from several limitations, one of them being that it will be difficult to expand their production capacity to any significant extent by 1971. This limitation is reflected in the inability to increase exports of mineral products, petrol, and — owing to the absence of sufficient quantities of raw materials — of foodstuffs (especially citrus preserves). The expansion of exports will not grow vigorously in some branches because of low profitability; the outstanding example here is the export of cotton-fibers. The contribution of this branch of agriculture to exports in the past was based largely on high incentives which prevented factors of production from being diverted to more profitable export branches.

Other industrial exports[7] will expand at an average annual rate of over 20%. The growth rate is particularly high in branches such as leather and footwear (about 41%), vehicles (58%), electric and electronic equipment (about 50%), clothing (about 41%), machinery (33%), and printing and publishing (30%). On the other hand, the following branches are characterized by their slower-than-average growth rates: textiles (about 6%), mines and quarries (10%), and basic metal and pipelines (11%).

The growth rates expected in various exports also reflect the trend to develop industry in the direction of more intensive use of Israel's comparative advantages — especially in science-based industries and those requiring a high level of professional skill and knowhow. On the other hand, there will be slow growth in branches characterized by "comparative disadvantages", i.e., those that produce at an artificially higher price per dollar of added value, as a result of a reduction in Government incentives to these branches.

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7) Total industrial exports excluding diamonds, ships and planes.

TABLE 15. Distribution of Additional Main Exports of Goods by Period: 1961—1971
(per cent)

	Distribution of additions in percentages		
	1961—1964	1965—1967	1968—1971
Diamonds	43.7	23.8	19.2
Citrus	4.4	18.5	8.1
Chemicals and petrol	9.5	9.2	16.3
Foodstuffs	10.4	3.9	10.2
Textiles	3.4	5.7	3.0
Mines and quarries	7.3	6.5	3.9
Machines	0.3	1.4	7.3
Fresh agricultural produce (exluding citrus)	1.8	5.0	8.5
Clothing	2.3	-0.8	6.7
Transportation vehicles	0.1	0.7	5.6
Rubber and plastics	0.9	1.2	2.5
Wood and carpentry	1.6	1.0	2.5
Metal products	1.8	1.7	2.6
Electric and electronic equipment	0.2	1.0	3.0
Leather and footwear	0.3	1.1	2.0
Printing and publishing	0.8	0.5	1.8
Basic metal and pipelines	1.5	1.5	0.9
Non-metallic minerals	-0.5	0.7	1.4
Paper, cardboards and their products	-0.2	-0.2	0.8
Miscellaneous and n.e.s.	-0.9	3.3	1.6
Ships and planes	1.3	14.3	-6.9
Total exports (not adapted to the balance of payments)	100.0	100.0	100.0

2) Agricultural Exports

These exports will rise in the period of the plan from $106 million in 1967 to about $170 million in 1971 (i.e., by about 60%), or at an average annual rate of 12.5%; this rate is lower than those for both industrial and total exports. The growth envisaged will be spread more or less evenly between citrus exports (which will expand by some $ 31 million) and other agricultural exports ($ 33 million). This is an important change in the composition of additions to exports in comparison with 1961—1964 and 1965—1967, when citrus contributed above 70% of the total increase in agricultural exports.

As with industry, there will also be completely new exports in agriculture from branches that are at present in the first stages of organizing for the purpose, and for which the period of the plan is a transition period. Israel has not yet developed the export of agricultural produce in which it enjoys comparative advantage such as winter vegetables, melons, subtropical fruit and flowers. The reasons — which will no longer be valid in the period of the plan, were the following: (a) conditions in the local market were regarded as preferable to those in export markets by local farmers, who were therefore not interested in producing for export. More exports can be achieved by instituting policies which will make them more profitable and planning production so as to exceed local demand; (b) unfamiliarity with conditions in the international market — this will be overcome by guidance and direct Government support for market research and administration; (c) lack of suitable transportation for exporting agricultural produce — the establishment of a suitable transportation system will be undertaken with the aid of the Government in the period of the plan.

In agriculture, as in some branches of industry, exports can be a source of effective demand, which will bring about the growth and development of certain branches that would otherwise be stagnant. However, as noted, the Government will act to reduce the exports of branches that prove unprofitable (e.g., eggs for consumption).

Citrus exports, which will rise from $ 84 million in 1967 to $ 115 million in 1971, will contribute about one half of additional agricultural exports. Its anticipated growth rate (8 %) will be significantly lower than that of other agricultural produce (24 %). As a result, its share in total agricultural exports will decline to about 67 % in 1971, compared with 78 % in 1967.

The estimate of receipts from citrus exports in the period of the plan is based on the area of citrus groves already planted, the quantity of fruit to be exported, and the prices forecast in citrus markets abroad. According to the forecast an increase of about 52 % is expected in the exportable quantities in 1971, but there is considerable uncertainty as regards future prices of citrus fruit. Prices might drop as a result of increasing supply while no corresponding increase in demand is likely to develop, and there are doubts concerning the market in the European Economic Community. However, it is possible that the citrus products of North Africa — which is a competitor in Europe — will be diverted to East European countries.

(d) Invisible Exports

Invisible exports will rise from $ 340 million in 1967 to about $ 630 million in 1971. This increase of $ 290 million will take place at an average annual rate of about 17% — in comparison with a rate of about 15% in 1961 — 64 and 8% in 1965 — 67.

The rapid growth of service exports stems from the expansion and development of two of the main branches in this field — tourism and transportation. The exports of these two branches will be more than doubled in the planned period.

Some changes will take place in the composition of exports of services, the share of tourism and transportation in the total rising to more than half.

Exports of capital services, Government services, and other services will decline in importance, and make up 30 % of the total as compared with 37 % in 1967.

TABLE 16. Export of Services by Branches; 1964 — 1967 and 1971
($ millions, and in percent)

	$ millions					Average annual growth rate (per cent)		
	1964	1965	1966	1967	1971	1960-64	1964-67	1967-71
Total services exports[1]	269.8	306.7	345.0	340.0	630.0	15.1	8.0	16.7
a. Transportation	91.5	111.5	119.0	110.0	230.0	16.7	6.3	20.3
b. Tourism	54.8	55.0	59.0	50.0	115.0	19.5	-3.0	24.2
c. Insurance	41.3	46.0	50.0	55.0	90.0	19.0	10.0	13.1
d. Capital and government, n.e.s., and others	82.2	94.2	117.0	125.0	195.0	29.5	15.0	11.7

[1] On base of commodity inputs (f.o.b.)

Sources: 1960-1967 — Central Bureau of Statistics;

1) Export of Transportation Services

Exports of these services will rise in the period of the plan from $ 119 million in 1966 to about $ 230 million in 1971. The additional exports of $ 111 million will be divided between the export of shipping services, which will rise by $ 39 million (35 % of the addition), airline services, which will rise by $ 55 million (or 50%), and other exports — mainly oil to and from the pipeline — which will rise by about $ 17 million.

The accelerated growth in the export of transportation services stems from the expansion of Israel's shipping and aviation. The increase will result from the transportation of more tourists to and from Israel and transportation services to foreign users owing to the expansion of cargoes carried in Israeli vessels between foreign ports.

Transportation by Sea

Freight hauled by Israeli ships will reach 1.2 million tons, according to an estimate based on the assumption that the share of Israel's exports carried in vessels sailing under the Israeli flag will reach about 28 % — as compared with 24 % in 1966.

Export freight earnings (average proceeds per ton) were estimated at the level that prevailed in 1960—65. The price levels in the past two years do not, as mentioned, reflect future anticipated trends — owing to the rise in shipping rates that took place in this period following the Vietnam War and the closure of the Suez Canal.

The additional haulage capacity (excluding tankers) will, according to the estimate, be 3.2 million tons. The rise in haulage to and from Israel will be some 0.9 million tons, and therefore the additional capacity forecast for haulage between foreign ports will be 2.3 million tons. Freight haulage between foreign ports will rise during the period from 1.7 million tons in 1966 to 4.0 million tons in 1971.

The average turnover from transporting freight between foreign ports will be similar to the level for 1963—65, about $ 18 per ton. This estimate assumes that transportation routes and types of freight and ships will not change much in comparison with recent years.

As a result of a considerable redaction in the passenger fleet during the period of the plan, a decline in reduction transport receipts may be expected.

Aviation

Estimates of the number of airline passengers to and from Israel are based on the forecast of tourism and the share of El Al airlines in the transatlantic traffic. Passenger traffic will rise at an average annual rate of about 17%, and El Al's share (excluding charter flights) will remain at a level of approximately 52%. The number of passengers relevant to the calculation of these export receipts is about 550,000 in 1971.

TABLE 17. Receipts from Export of Transportation Services by Sea and Air: 1964–1966, and 1971 ($ millions)

	1964	1965	1966	1971
Total transportation exports	92	111	119	230
1. Shipping	57	73	78	117
Haulage of goods from Israel	7	14	12	21
Haulage between foreign ports	29	34	41	73
Passengers	11	13	11	4
Other (includes port services and lease of ships)	10	12	14	19
2. Aviation	35	38	41	96
Passengers	26	28	30	70
Other (includes port services, goods, and lease of aircraft)	9	10	11	26
3. Other*	–	–	–	17

* Other exports include estimated receipts from the activation of the great oil pipeline from Eilat.

Source: 1964–66 – Central Bureau of Statistics;
1971 – Estimates of the Economic Planning Authority.

Owing to increased exports of agricultural produce by air, air freight in 1971 is estimated at about 25,000 tons, of which El Al will carry about 17,000 tons.

A reduction is expected in air passenger fares and freight rates in the next few years — by 10% for passengers (with differences between the varisou various airlines) and more than 20% for freight — in view of the utilization of newer and more efficient aircraft.

The increase in the exports of other aviation services[8] is estimated at 21% per year, assuming that the scope of leases will remain at the 1966 level, whereas airport services to foreign companies will rise owing to increased air traffic and the expansion and development of Israel's airports.[9]

2) Tourism

Exports of tourist services will expand, according to the plan, from $ 50 million in 1967 ($ 59 million in 1966) to some $ 115 million in 1971. This growth is considerably higher on an annual basis than the average in the past.

Several factors will contribute to this growth in the export of tourist services. The first is the increased international demand for tourist services all over the world, and especially to the Middle East. Second comes Israel's increasing attractiveness as a tourist center, stemming from the development of vacation sites and new tourist attractions throughout the country (these will make it possible to gain entry into new tourist markets in Europe), as well as the special meaning that Israel has for tourists especially now that access to the holy sites is available since June, 1967. Thirdly, reductions are anticipated in the travel process to Israel. Fourthly, the Government intends to encourage and support the development of the industry.[10]

Tourist traffic will grow by an average of 15% per annum from 1966, according to an estimate based on the anticipated increase in world tourist traffic — though it will not be so high, Israel will have a large share in it owing to the factors mentioned above. Some 645,000 tourists are expected in 1971, 55,000 of whom will be one-day visitors from ships at port. These estimates do not take into account possible restrictions on tourism from the U.S.A.

The estimate of foreign-currency receipts is, of course, affected by the average receipts from each tourist. In the planned period a slight reduction is envisaged in these receipts from individual tourists from about $194 — on the average — owing to a changing composition of tourism.

3) Export of Insurance, Capital, and Services by the Government and Other Institutions

Total exports in this group will rise from $ 180 million in 1967 to about $ 285 million in 1971 — an increase of some $ 105 million, 58% over the period or an annual average rise of about 12%.

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[8] Lease of aircraft and airport services.

[9] For additional details of this estimate see section on Aviation in the chapter on Transportation.

[10] See chapter on Tourism.

3. Imports

(a) Imports in 1971

According to the development plan, total imports will reach $ 1,920 million in 1971, compared with $ 1,350 million in 1967 — an increase of $ 570 million, about 42%. Imports will rise at the same annual rate (9.2%) as Gross National Product, and the ratio betwen the two will, therefore, remain constant at about 33%.

TABLE 18. Imports: 1964 — 1967 and 1971
($ millions and percentages)

	$ millions					Average annual growth rate (per cent)			
	1964	1965	1966	1967	1971	1964-65	1965-66	1966-67	1967-71
1. Total import of goods[1]	815.4	810.9	811.5	733.6	1,240	-0.6	-0.1	-9.6	14.0
Consumer goods	82.5	82.9	88.2	73.7	130	0.5	6.4	-15.4	15.3
Production inputs	535.6	549.5	583.6	532.4	828	2.4	6.2	-8.8	11.7
Investment goods	197.4	178.5	139.7	127.5	282	-9.6	-21.7	-8.7	22.0
2. Total imports of services	446.9	514.4	539.5	660.0	790	15.1	4.9	22.3	4.6
3. Total imports c. i. f. (net)	1,262.3	1,325.3	1,315.0	1,397.6	2,030	5.0	-0.8	6.0	9.9
4. Total imports (adapted to the balance of payments	1,188.5	1,245.7	1,271.6	1,350.0	1,920	4.8	22.1	6.2	9.2

[1] Before adaptation to the balance of payments.

Sources: 1964-67 — Central Bureau of Statistics;

This fact, which indicates the economy's limited ability to save on imports, stems from two main factors:

First, the 1971 imports estimate is based on the assumption that some of the import coefficients are at the level that prevailed during the "recession" years — 1966/67. Second, since in these two years the ratio between imports and product declined in comparison with earlier years, the maintenance of this low level (33%) in spite of accelerating economic activity is to be regarded as a notable achievement. A similar result may be obtained from a comparison of the shares of additional imports in increased product in the two periods: 46% in 1961—64 as compared with a planned 33% in 1968—71. Therefore, although the relative importance of imports remains unchanged in comparison with 1967, a considerable decline is indicated in the dependence on imports for final demand and for production in comparison with periods in which economic activity was high.

In other words, the plan proposes that the economy should adapt itself to the reduction that took place in imports during the recession, and attain accelerated production while preserving some of the important patterns of the recession.

The relative decline in imports for production in the period of the plan stems mainly from the expected decline in the rate of increase in the import of services, since the share of goods imports in production will probably rise in most cases. The inability to reduce the gap between imports of goods and total production stems from the relative inflexibility of production and consumption patterns, which became established as a result of several factors. First, Israel's poverty in natural resources and local raw materials necessitated (and still does to a large extent) basing local production mainly on imported raw materials and inputs. Secondly, although local production has expanded and some of the necessary inputs can be produced at reasonable prices locally, the production patterns established have a high import component and are extremely hard to change within the period of the plan. Third, the capacity of some branches of the economy to produce import substitutes has been fully utilized as a result of the fiscal and administrative protection given to the production of various consumer goods. Some branches, mainly among those producing investment goods,[11] which have not enjoyed such high protection, may be able to contribute to the reduction of imports of goods with the help of reasonable tariff protection.

Other factors will also affect a rise in the import component of local production. One of them is the diversion of the major share of additional resources to exports and investment in equipment, in which, it seems, the import component is higher than in other uses of production (mainly private consumption). Another factor which will probably be influential in the period of the plan is the renewed growth of the stock of import goods, the dimensions of which declined during the recession.

As a result of the cumulative effects of these factors, some imported inputs for some branches of industry and agriculture will be replaced by local import-substitutes, while in other industries imports may replace local population. These opposite tendencies will probably balance each other.

According to the plan, imports of goods (f.o.b.) will rise from $655 million in 1967 to about $1,130 million in 1971. The average annual growth rate will thus be about 15% and will exceed the growth rate of total imports. The share of goods imports in total imports in 1971 will rise to about 60%, in comparison with 48% in 1967. Imports of services will rise according to plan from $660 million in 1967 to about $760 million in 1971, i.e., at an average annual rate of about 4.6%.

(b) Government Import Policy in the Period of the Plan

The import component in local production is fairly inflexible, and it is therefore difficult to apply effective policy measures that are also economically profitable in order to reduce imports that are necessary for a given scope of production. The main aim of policy measures in this field is, therefore, to improve the allocation of resources with the intention of increasing specialization in the production of those goods and services whose import is more expensive than local production. A more efficient allocation of resources will also accelerate economic growth, which, in turn, will accelerate the rate at which the balance of payments gap will be closed in the future.

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[11] See chapter on Industry.

The transition period between the new allocation of resources and the beginning of the economy's accelerated growth might be accompanied by a decline in the production of some plants in the economy, or even a close-down of some of them. The result may be unemployment, the pressures of which will have to be counteracted by creating alternative and profitable employment opportunities. It will therefore be necessary to apply the major policy measures gradually, allowing for time in which to adapt to the new situation.

Government policy in the field of imports will aim at reducing the exaggerated protection of local production. The "exposure" of local production to competing imports, begun in 1962 immediately after the devaluation, will continue in the period of the plan. Administrative protection — by means of quantitative import licenses — which has been abolished for many imports, will be practically eliminated in the period of the plan; customs duties that were fixed at the beginning of the "exposure" policy, as fiscal protection, will gradually settle at a level that will not offer protection to an unprofitable product. The first stage of reducing protection will be to lower customs at uniform rates, first evenly for all products, and eventually fixing customs reductions so that the protection of the dollar saved in local production will be more uniform for all commodity imports. In doing this, account will be taken of international agreements to which Israel is (or hopes to become) a party, such as GATT, the Kennedy Round discussions, the European Economic Community, and so on.

The following may be expected as a result of this reduction in protection. First, an improvement in the allocation of resources in the direction of increased specialization in those branches where Israel has comparative advantages. Second, there will be pressure on producers to lower the prices of their goods and raise efficiency. Third, there will be an upper limit to price levels for local producers who in the past exploited the absence of foreign competition. Fourth, following increased competition more attention will be paid by local producers to the quality of their products.

(c) Imports of Goods

1) General

Total net imports of goods (f.o.b.) will rise by some $475 million between 1967 and 1971 — an overall growth of 72% or 15% annually.

This considerable rise will result from the planned acceleration in the growth of the economy. In 1966—1967, as mentioned, the economy reduced the volume of imports as compared with earlier periods of growth. Since we have no reason to assume that patterns of production and consumption of goods have changed since, the decline in imports in 1966 and 1967 is to be regarded as expressive of a decline in aggregate demand. It thus seems that the economy's development, as it is envisaged in this plan, will require an increase in the import of goods at an annual rate of 15%, which is higher than the growth rate of the national product

TABLE 19. Imports of Goods by Economic and Branch Destination: 1964 - 1967 and 1971
($ millions)

	1964	1965	1966	1967	1971
1. Consumer goods	82.5	82.9	88.2	73.7	130
Foodstuffs	36.5	35.2	42.7	29.7	59
Others	46.0	47.7	45.5	44.0	71
2. Production inputs	535.6	549.5	582.6	532.4	828
Agriculture	29.7	34.1	48.2	51.7	41
Industry	404.0	401.5	422.3	395.0	637
Foodstuffs	74.0	70.0	79.0	–[1]	87
Diamonds (net)	99.5	92.7	121.5	108.5	175
Others	230.5	238.8	221.8	–[1]	375
Construction	16.8	17.4	10.0	7.6	16
Petrol	46.6	53.2	58.3	45.8	75
Spare parts	38.5	43.2	44.8	32.3	59
3. Investment goods	197.4	178.5	139.7	127.5	282
Agriculture	8.5	5.2	5.6	4.6	6.
Industry, mines and quarries, water and electricity	74.1	88.5	64.1	48.5	156
Transportation and communications	38.0	33.5	29.0	22.2	36
Ships and planes	59.9	31.9	18.8	34.1	53
Services and trade	16.9	19.4	21.6	18.1	30
4. Total imports of goods c.i.f. (net)	815.5	810.9	811.5	733.6	1,240
5. Total imports of goods f.o.b. (net, adapted to the balance of payments)	741.0	731.0	731.1	655.0	1,130

1) No detailed information available

Source: 1967-67 — Central Bureau of Statistics

The outstanding change in the composition of goods imports by economic uses is the rise in the share of investment goods to 23%, in comparison with 17% in 1967; this stems from a rise in the rate of investments in total product in the planned period. At the same time a decline will take place in the share of imports of production inputs and raw materials from about 73% in 1967 to about 67% in 1971 — although these imports will constitute the major portion of imports of goods in the future too.

Another indication that the direction of development in imports is similar to that in the economy as a whole is the fact that two-thirds of additional imports of goods will be directed to the import of inputs and raw materials for production (in 1961—1964 the rate was 60%), while in 1965—1967 imports of these goods declined. The share of imported investment goods in total additions to imports of goods will not change much in comparison with 1960—1964, although there will be a rise in comparison with 1964—1967, when imports of investment goods declined as a result of a general decline in investments. The relative importance of imports of consumer goods will decline slightly, in comparison with 1961—1964, though not in comparison with 1965—1967. It therefore seems that the composition of additional imports of goods is not essentially different (except in minor items) from the composition in 1961—1964. This should not be surprising since the major obstacles and limitations (especially the absence of raw materials and the difficulty of producing import substitutes) cannot be totally eliminated within the period 1968—1971.

As mentioned, the import of goods will rise at an average annual rate of 15%; imports of investment goods will rise by 20% annually, inputs to production by 12%, and imports of consumer goods by 15%.

2) Imports of Consumer Goods

Imports of consumer goods, which stood at nearly $90 million in 1966 and dropped considerably in 1967, will grow to about $130 million in 1971. The share of consumer goods in total imports will not decline in comparison with 1966, both because of the anticipated growth in product and incomes, and because of the liberalization policy that will lower the relative price of imported consumer goods.

Total imports of foodstuffs will reach $59 million according to the plan, compared with $30 million imported in 1967 and $43 million in 1966. This estimate is based on the forecast of demand for foodstuffs and the local program for the production of foodstuffs, where the import of foodstuffs is intended to supply that part of demand not met by local production. The main products imported will be meat, dairy products and sugar.

Imports of other consumer goods, mainly intended for private consumption, will grow (according to the estimate) to about $71 million in 1971.

3) Imports of Production Inputs

These imports will reach about $830 million in 1971, compared with $532 million in 1967, and $583 million in 1966. The economy will, therefore,

TABLE 20. Additions to Imports and Their Distribution to Economic and Branch Destinations, by Period: 1961-1971 (percent)

	1961-64	1965-67	1968-71
1. Consumer goods	12.0	−16.7	11.1
Foodstuffs	6.3	8.3	5.7
Others	5.7	− 2.4	5.4
2. Production inputs	59.1	− 3.9	58.4
Agriculture	0.0	28.9	− 2.2
Industry	51.0	−11.0	47.8
Construction	− 0.3	− 1.0	1.7
Petrol	3.7	−11.2	5.8
Spare parts	4.7	− 7.8	5.3
3. Investment goods	28.9	−85.4	30.5
Agriculture	0.9	− 4.8	0.3
Industry, mines and quarries, water and electricity	8.3	−31.3	21.5
Transportation and communications	9.3	−19.3	2.7
Shipping and aviation	7.3	−31.5	3.7
Services and trade	3.1	1.5	2.3
4. Total additional imports of goods (net)	100.0	100.0	100.0

have to expand imports of inputs for production by about $300 million in order to achieve the planned magnitude and composition of production.

The estimated imports of inputs to agriculture, which will reach $41 million in 1971, are based on the estimate of agricultural production for 1971, as well as on the inputs import component directed to agriculture. This component, which equalled over 8% of agriculture production in 1966, will decline to about 5% in 1971, since imports for agricultural production in 1966 were especially high owing to the drought. In the same year there were particularly high imports of seeds, along with a considerable slow-down in agricultural production, which itself serves as an important source of agricultural inputs. On the other hand, an expansion of own production of inputs during the period of the plan — and especially changes in the composition of agricultural production and the decline in the share of livestock (in which there is a high import component) — will bring about a decline in the import component of agriculture as a whole.

Imports of inputs to industry will rise by more than $240 million in comparison with 1967, and will reach $640 million in 1971. Although the share of these imports in total imports of goods (56%) will be higher than in 1965—1967, it will be similar to the level that prevailed in 1961—1964.

Inputs to industry are divided into three main groups: inputs to the foodstuffs industry, to diamonds and to other branches of industry.

Imports of rough diamonds will reach about $175 million in 1971. This estimate is based on an export program of $230 million and an increase in the percentage of added value in industry to about 25%, stemming from the expanded export of small diamonds; the percentage of value added in the polishing of these diamonds is higher than for melees.

Imports of inputs to other branches of industry will reach $375 million in 1971 — about $153 million more than in 1966. This estimate is based on the planned production of these branches, which will reach about IL7,700 million in 1971, and a direct import component of about 16% — higher than in 1966, but lower than in 1964, when economic activity was more intense.

Direct imports of inputs to the construction industry will grow to $16 million in 1971, compared with $10 million imported for this purpose in 1966, and about $8 million in 1967. This increase in imports exceeds the expected increase in the construction industry's production in 1966—1971.

Imports of spare parts will reach about $60 million in 1971, since we assume that the ratio between annual investments in equipment and the import of spare parts will remain at the same level as in 1960—1966.

4) Imports of Investment Goods

Imports of investment goods will reach $280 million in 1971, as compared with $140 million in 1966 and about $130 million in 1967. This is a growth rate of 20% annually, which is higher than the growth rate of total investments in the period of the plan: 17%. The share of imported investment goods in total investment will rise to about 28% in 1971, in comparison with 20% in 1966 and 24% in 1967. The rise in the direct component of imports of goods in investments stems from the planned change in the structure of investments in Israel, in the direction of reducing investments in construction and increasing them in exporting branches (mainly industry and mines and quarries) and in transportation and communications, whose development will make accelerated growth of the whole economy possible in the future.

The assumption underlying the estimates of imports of investment goods is that there will be no change in the direct import components of goods in the production of these branches as compared with 1965. Imports for transportation and communications, ships and airplanes, were estimated according to the needs as defined in the development program of transportation and posts.

(d) Invisible Imports

Total imports of services will grow from about $660 million in 1967 to about $790 million in 1971. This increase of $130 million is only about 20%. The annual rate of growth will thus be approximately 4.6%. The growth rate of imports of services will be considerably lower in the period of the plan than in 1961—1964 and 1965—1967, when these imports grew at an average annual rate of about 19% and 14%, respectively. The cause of the slow-down is the non-expansion of Government and other services, and the slower growth rate of capital imports stemming from the fact that Israel's external debt will remain fairly level.

TABLE 21. Imports of Services, 1964-1971, by Branches
($ millions)

	$ millions				Per cent growth in the years		
	1965	1966	1967	1971	1960–1964	1964–1967	1967–1971
Total services imports (on the base of import of goods f.o.b.)	514.4	539.5	660.0	790.0	18.6	13.9	4.6
Transportation services	115.4	120.5	115.0	185.0	11.6	3.1	21.6
Travel abroad	43.7	48.8	45.0	65.0	26.7	6.5	9.6
Capital services	106.0	118.6	140.0	145.0	16.3	14.3	0.9
Insurance services	52.5	56.0	60.0	95.0	16.3	10.4	12.2
Government, n.e.s., and other services	196.8	195.6	300.0	300.0	23.7	21.7	–

Source: 1964-1967 — Central Bureau of Statistics.

The main expenditure item — imports by Government and other services, will decline from 46% of the total invisibles in 1967 to about 38% in 1971. On the other hand, the second-largest item — imports of transportation services — will grow from 17% of total invisible imports in 1967 to about 23% in 1971.

1) Imports of Transportation Services

Total imports of transportation services will rise from $115 million in 1967 to about $185 million in 1971. This increase — of about $70 million — is equivalent to 61% compared with 1967.

The expected growth in the volume of freights imported by sea will be about 16%. According to the plan, total freight will grow to 3.0 million tons in 1971, compared with 2.6 million tons in 1966. About 63% of this tonnage will be hauled by ships sailing under Israel's flag, including ships leased by Israeli shipping companies. Total freight that constitutes impor of transportation services will therefore be 37% of the overall volume – i.e., 1.1 million tons.

TABLE 22: Imports of Transportation Services by Sub-branches* 1964-1966 and 1971 ($ millions)

	1964	1965	1966	1971
Total transportation	105	115	121	185
Shipping	77	81	81	109
Of goods to Israel	21	21	18	20
Passengers	3	2	2	4
Other (includes port services and lease of ships)	53	58	61	85
Aviation	28	34	40	76
Passengers	9	10	13	20
Other (includes port services, lease of aircraft, and passenger flights)	19	24	27	56

* On the base of imports and exports of goods f.o.b.

The assumption is that average costs of transporting freight to Israel by sea will reach $18 per ton in 1971, according to the average that prevailed in 1961–1964.

Israeli passenger traffic in foreign ships will increase in the coming years, since Israel's passenger fleet has been cut down drastically. This will cause a rise in foreign-currency payments for travel to about $4 millio in 1971, compared with $2 million in 1965–1966.

Estimates of shipping imports, including mainly port services received by Israeli ships in foreign ports and payments for leases of ships by Israeli companies, were made on the basis of three assumptions: (a) that the production of the shipping industry will rise by 8.5% annually; (b) that the share of current foreign-currency receipts (excluding current expenditure) in its total turnover will remain stable; (c) that no change will take place in the extent of leasing of ships by Israeli companies.

The estimates of imported aviation services (passengers) are based on the assumed increase by about 9% annually in the use made by Israelis of foreign airlines, which is the rate of increase of total air traffic from Israel. Prices of flights will decline somewhat towards the 1970s, when more efficient and cheaper aircraft are used.

The estimate of other aviation services — mainly transportation of freight by air, various services received by Israeli aircraft in foreign airports, and leasing of aircraft by Israeli companies — is based on the same two assumptions made with respect to the import of shipping services: that the difference between foreign currency receipts and current foreign currency expenditures will rise at a rate similar to that of the over-all production of the aviation services branch.

2) Travel Abroad

Expenditure on this item will rise from about $45 million in 1967 to about $65 million in 1971, i.e., an overall growth of about 45%, or an average annual rate of 10%. This constitutes a slow-down in comparison with the growth rate in 1961—1964 — an annual average of about 27%. The annual growth rate in 1965—1967 was much smaller (about 6%), owing to the general recession in economic activity and the Six-Day War, which prevented many people from leaving the country.

The number of persons travelling abroad according to the estimate of the plan will reach about 180,000 in 1971 — assuming that the number of persons travelling abroad each year will grow at an average rate of 9% (baseline — 1966) or 13% (baseline — 1967).[13] The average growth rate in the number of passengers travelling abroad has been 9%, approximately, since 1960.

3) Imports of Capital Services

According to the estimates of the development plan, imports of capital services will reach about $145 million in 1971, in comparison with $140 million in 1967. In the import estimates for this item, account was taken of the fact that the level of external debt will remain reasonably stable.

4) Imports of Government Services and Services of Other Institutions

Imports under this head, which includes a substantial portion of imports for security and public destinations, will not rise in the planned period, and will remain at the high level which characterized it in 1967 — $300 million. There are two reasons for this: First, the level of imports of this item were particularly high in 1967, expressing the need for imports connected with the Six-Day War. Second, it is plausible to assume, on the basis of existing plans, that substitution of local production for part of the imports intended for public consumption will be successful and give first results by 1970—1971. However, the estimates of imports under this head are naturally subject to considerable fluctuations as a result of the unstable and unforeseeable political conditions in the area.

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[13] For the detailed assumptions of forecasts of passenger traffic see chapter on Transportation.

D. CAPITAL IMPORTS

1. Capital Imports 1950 — 1967

Israel's rapid economic growth called for substantial imported inputs which could not be financed by foreign currency revenue from exports alone, and the difference was covered by capital imports. The import surplus of goods and services of the Israeli economy, which amounted to approximately $ 6,400 millions during the period, was necessitated and made possible by the economy's capital imports. The connection between the import surplus and capital imports is not onesided. From a certain standpoint, part of the capital imports —such as reparations and personal restitution—can be regarded as one of the causes of the import surplus which existed in the past. On the other hand, other parts of it—particularly loans—were arranged for the purpose of financing part of the economy's imports, since the revenue from export did not suffice.

Total net capital imports during the above period amounted to some $ 7,400 million—$ 9,300 million received less $ 1,900 million paid out. This sum enabled the financing of the import surplus and the accumulation of foreign currency balances which reached $ 845 million at the end of 1967.[1]

a. Sources of Capital Imports

1) Unilateral Transfer Payments

This item constitutes about two-thirds of total net capital imports during the entire period. Naturally, this phenomenon—the heavy weight of transfer payments in total capital imports—has the advantage of lowering the economic price of capital imported into Israel.

Institutional remittances totalled $ 1,735 million and consisted for the major part of funds raised by the Jewish Agency, together with direct transfer payments to various public institutions in Israel. The source of these funds is mainly United States Jewry; they are an indication of the deep sense of solidarity between world Jewry and the people of Israel. The volume of receipts from this source was relatively stable during the period; they have constituted a considerable proportion both of total capital imports to Israel and of the resources at the disposal of the economy. Their importance was decisive in the period when the economy needed foreign exchange in order to absorb the tremendous waves of immigrants which arrived during the first years of independence. Direct remittances to research institutions and such bodies as Hadassah represent the direct contribution of world Jewry to the advance of research in Israel, and to the establishment of educational and health institutions.

Net capital imports from Germany within the framework of the Reparations Agreement amounted to $ 775 million. The Agreement was signed and put into effect in 1953, when Israel's foreign exchange reserves had dwindled considerably and the possibilities of raising funds were also

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1) The difference between net capital imports (long- and medium-term) and total import surplus + accumulated balances consists of short-term capital movements, and errors and omissions.

limited. Especially in the period from 1955 to 1959, when the share of German Reparations in total capital imports was relatively high, it is doubtful whether the growth achieved by such sectors as shipping, electricity, transport and Government development projects would have been realized if it were not for these Reparations.

Total personal remittances from abroad amounted to approximately $ 885 million. This source includes support from relatives abroad, goods brought by immigrants, pensions from abroad and the like.

Total capital imports within the framework of personal restitution amounted to $ 1,190 million. Personal restitution is paid by the Government of West Germany to residents of Israel who suffered under the Nazi regime in Europe, and consists of two types: non-recurrent payments and annual pensions, the former constituting the larger part. Recipients of personal restitution used only a part of the payments they received for current consumption. Most of the money was used for purchasing durable goods (dwellings, cars, electrical appliances and the like) and for accumulating cash savings.

U.S. Government grants-in-aid amounted to approximately $ 320 million. Their relative importance was high in the early period (1951 — 1955) but later there was a decline in both their absolute volume and their relative importance and now no funds are received from this source.

2. Long- and Intermediate-term Loans

Independence and Development Loan bonds have been purchased in the main by U.S. Jewry. Since their sale began in 1951, bonds totalling $ 1,260 million have been sold, of which $ 486 millions had been redeemed by the end of 1967. The bonds bear a relatively low rate of interest, 3.5 % for Independence bonds and 4 % for Development bonds. The purchase of Independence and Development Loan bonds is a concrete expression of the positive interest of World Jewry in the Israeli economy and their desire to participate in Israel's development. Gross receipts from this source tended to be even higher in the 1960's than in the 1950's. The part played by the Independence and Development Loan Bonds in the development of the economy and the Government's financial capabilities are shown quantitatively in the section on Government Finance, Tables 4 and 5.

In addition to its grants, the U.S. Government extended to Israel loans in the form of food surpluses, loans for the purchase of raw materials and equipment, and loans for the execution of specified development projects. Total revenue from these sources amounted to about $ 500 million. Some of the loans have been given on condition that they be repaid in local currency, which eases the burden of the economy's obligations in foreign exchange. Most of the loans have been given at low interest and for long periods. Part of the repayments is used for executing various projects in Israel, which are authorized by the U.S. Government.

Both the Government of Israel and a number of private bodies in the economy received loans from the Export - Import Bank, which amounted to $ 150 million during 1950 — 1967. An earlier loan of $ 100 million was given to 1949, when the young State had no other means to acquire equipment, and it was used in part to strengthen the agricultural sector of the economy. The sums received later on were aimed at the extension of the water network, the purchase of equipment for the generation and distribution of electricity, the purchase of airliners, the expansion of the refineries and the petrochemical industries, etc.

Loans from the World Bank were received from 1960 onwards. Total loans from this source, for projects authorized by the Bank, amounted to $ 92 million during the period. These loans made it possible to carry out investment in such projects as Ashdod Port, the Dead Sea Works and the development of the road network. Loans were also given to the Industrial Development Bank. Finally, various sources (such as the German Federal Government, commercial banks, investors and investment companies) granted loans to the Government and the private sector for a variety of purposes. Typical of this category was the large number of loans, most of which were for relatively modest amounts with a medium term of repayment. Total revenue from this source was about $ 1,360 million.

3) Investments

Israel's geopolitical situation and the various difficulties which confronted the economy in its different stages of development hampered the flow of private investments from abroad during most of the period, despite the Government's special efforts (including legislation) to encourage this important source. Nevertheless, private foreign investment found its way to the various branches of the economy as early as the first years of the State. The volume of investments from abroad amounted to approximately $ 1,000 million in the above period.

b. Development of Capital Imports

The period 1950—1954 was marked by a considerable shortage of foreign exchange and efforts to raise capital from a variety of sources. During this period, exports financed about 23 % of imports; import requirements were numerous for consumption goods, security, etc. The economy was occupied in absorbing large waves of immigration and was in a stage of post-war recovery. At the same time foreign exchange balances were entirely depleted and strict administrative supervision of the allocation of foreign exchange resources was necessary. The dwindling of foreign currency reserves led to a shortage of essential consumption goods and threatened to paralyse economic activity owing to the difficulty of financing the importation of raw materials. The substantial increase in foreign currency transfers which followed—both from United Appeal and Israel Bond revenues and from U.S. Government grants-in-aid, enabled the economy to recover from this situation.

Transfer payments constituted some two-thirds of total net capital import in the 1950—1954 period and the share of the capital received by the public sector was very large—approximately 80 % of total net capital imports.

The important components of capital imports during this period were: transfer payments by the Appeal and other institutions, which financed some 34 % of net capital imports: the Independence and Development Loans, which financed 13%, and U.S. Government grants, which financed some 14%; at the same time, proceeds from the $ 100-million loan negotiated with the Export-Import Bank in 1949 were also used, along with another $ 35-million loan arranged in 1951.

Unilateral transfer payments represented 65% of net capital imports, and long- and intermediate-term loans accounted for 35%. Towards the end of the 1950—1954 period, reparations from Germany began to arrive.

The 1955—1959 period saw the beginning of the economy's consolidation. The volume of investment expanded and its growth became more rapid. In this period, too (which included the Sinai Campaign), the economy's foreign exchange needs were great and exports still did not finance more than 39% of imports. During this period, the share of transfer payments reached a peak, mainly as a result of revenue from reparations and personal restitution. At the same time, funds continued to be received through the United Jewish Appeal and grants from other institutions, and from the U.S. Government and Independence and Development Bonds. The share of transfer payments reached 77% of net capital import, and the public sector's share among recipients of capital fell to about 68%. Reparations financed about 24% of net capital imports during the period. During this period, the economy paid off a considerable portion of its obligations—to the amount of about 50% of the revenue from long- and intermediate-term loans received in the same period. Towards the end of the period, foreign exchange balances began to accumulate.

1960—1964 was a peak period in economic growth and, on the other hand, a peak period of deficit in the balance of payments; but in spite of the increase in the deficit, exports financed some 51% of imports during the period. In the same period, the share of unilateral transfer payments in total net capital imports fell to about 63%; this was not the result of a fall in the absolute amount of unilateral transfer payments but of a substantial growth in the amount of long- and intermediate-term loans and in investment. There was also a fall in the public sector's share in the receipt of capital to about 40%, as a result of the contraction in reparations and the almost complete cessation of U.S. Government grants-in-aid and, on the other hand, the considerable volume of personal restitution from Germany; the share of the private sector also rose in long- and intermediate-term loans, as a result of the loans and investments it received, apparently owing to the atmosphere of prosperity in the economy; the devaluation of 1962 also had an accelerating influence on the rate of flow of private capital to Israel.

The decline in the share of transfer payments and the rise in the share of loans is also noticeable in the ratio of repayments to receipt of loans during the same period, which fell to some 44%, as against 51% during 1955—1959.

In this period, the economy accumulated foreign exchange balances at an accelerated average rate of some $ 90 million per annum, and the balances rose from $ 170 million at the beginning of the period to $ 640 million at its conclusion. This rapid increase in balances was accompanied by a parallel rise in obligations.

The increasingly large deficit in the balance of payments at the end of this period, which was accompanied by definite inflationary tendencies, led the Government to adopt a policy of restraint in 1965—67, which brought about a slow-down in the rate of economic activity and in the growth of the national product, side by side with an improvement in the trade deficit. Exports financed some 61 % of imports and transfer payments equalled two-thirds of net capital imports. In this period the regular redemption of Independence and Development bonds started.

The slowdown policy led to a contraction of the private sector's capital imports, particularly investments, but the Six-Day War aroused a dramatic response from world Jewry, as expressed in the Emergency Appeal, which brought about a sharp increase in capital imports, and sales of Developmen Loan bonds also increased considerably as world Jewry responded to Israel's economic needs. Despite the largely increased expenditure on security, foreign exchange balances rose to $ 845 million by the end of 1967.

C. The Nature and Principal Effects of Capital Imports

During the entire period, except for 1967, the private sector's share among recipients of capital imports rose both absolutely and relatively to that of the public sector; though the latter maintained a stable volume of receipts, its relative share dropped in comparison with that of the private sector. The private sector received about 20 % of capital imports during 1950 —1954 and about 60 % during 1960 —1964. This phenomenon influenced the allocation and use of resources derived from capital imports. A situation in which the private sector receives a substantial proportion of capital imports restricts the Government to a certain extent, since it has to take possible uses of private capital into consideration. There was a drastic change in 1967. The response of the Jewish People to Israel's needs in the emergency period resulted in a large increase in the receipts of the public sector. During the whole period, 1950 —1967, the private sector received 45 % on net capital imports, and the public sector 55 %.

Unilateral transfer payments during the entire period constituted, as stated, about two-thirds of net capital imports, their share being higher during 1955 —1959 and lower during 1960 —1964. The high percentag of transfer payments enabled the economy to maintain a reasonable level of foreign exchange reserves during the second decade, since there was no need to pay interest or repay the principal on the sums which were in the form of transfers. Moreover, this situation enabled the economy to repay a considerable part of its obligations. The following table presents a schematic breakdown of capital imports as between public and private receipts and by sources of funds.

Towards the end of the period, the process which actually existed throughout the period became more marked: namely, the transformation of the economy from the position of a large borrower making few repaymen on loans at the beginning of the period to the position of an economy continuing to borrow but repaying an increasingly large proportion of its debts. Whereas at the beginning of the period, in 1950 —1954, the economy paid an average of some $ 26 million annually on account of its debts, towards the end of the period, in 1960 —1964, in spite of the relatively large proportion of loans in total capital imports, it paid an annual average of $ 150 million—in other words, some 5 % of resources as compared with approximately 1 % at the beginning of the period. This process was made possible, among other things, both by the economy's consolidation and by the high proportion of transfer payments in capital imports.

TABLE 23. Capital Imports to Israel 1950—1967
(Annual averages: $ million)

	Loans + Investments (net)		Unilateral Transfer Payments		Total		
	Public	Private	Public	Private	Public	Private	Total
1950-1954	57.8	33.6	150.2	21.8	208.0	55.4	263.4
1955-1959	57.6	16.2	155.6	86.6	213.2	102.8	316.0
1960-1964	70.6	128.4	143.5	193.4	214.2	321.8	536.0
1965-1967	140.6	78.3	175.6	207.6	316.3	286.0	602.3
1950-1967	75.1	62.6	154.1	118.4	229.2	181.0	410.2
Total	135.2	1,126.8	2,773.8	2,131.2	4,125.6	3,258.0	7,383.6

Source: Ministry of Finance.

While it is difficult to give an explicit indication of the objectives of capital imports, their effect on the development of the economy can be discerned when a comparison is made between gross capital imports and the total resources at the disposal of the economy, gross investment and the level of the surplus of imports over exports. This comparison is presented in Table 3. The main conclusions are that, on the average, throughout the period 1950—1967, there was a ratio between capital imports and gross investment in the economy, which constituted nearly 20 % of total available resources. Of gross capital imports, over two-thirds were used to finance the import surplus of goods and services, and nearly one-third for debt repayment and accumulation of balances.

The economy's debts continued to incrase during the period under survey, as can be seen from Table 2. A considerable part of the indebtedness arose from the sale of Independence and Development Loan bonds. It should be noted that the larger part of the debt bears a relatively low rate of interest and its redemption will continue for many years. Nevertheless, the growth of the external debt is creating a constantly increasing current burden on the balance of payments owing to the repayment of principal and interest. In 1955 these payments amounted to $ 9 million on account of principal and $ 10 million interest; in 1966 over $ 200 million were paid on account of principal and $ 50 million interest. In each year new borrowing exceeded repayment of debts.

Foreign exchange balances in recent years have reached a level equivalent to the amount needed to finance imports of goods and services for seven months. The maintenance of such a level of reserves is necessitated by the special conditions of the Israeli economy and its present state of obligations.

An analysis of the foregoing paragraphs show that, even though the dimensions of the different sources have changed, total capital imports have expanded continuously.

TABLE 24. Foreign Exchange Obligations for Long and Medium Terms and Balances, 1954—1967 ($ million)

End of Year	Obligations	Bonds[1]	Balances	Net Obligations
1954	382	160	80	302
1955	419	198	89	330
1956	451	245	86	365
1957	483	290	84	399
1958	523	324	130	393
1959	573	359	168	405
1960	600	389	270	330
1961	661	417	365	296
1962	739	451	506	233
1963	806	474	615	191
1964	980	499	643	337
1965	1,101	531	749	352
1966	1,213	542	730	483
1967	1,478	718	845	636

1) Included in obligation.

Source: Ministry of Finance.

TABLE 25. Share of Capital Imports in Total Resources and Gross Domestic Investments ($ million; total and annual averages)

	Total Loans + Investments + Grants (1)	Total Resources (2)	Gross Domestic Investment (3)	Ratio of Capital Imports to Resources (1)/(2)	Ratio of Capital Imports to Investments (1)/(3)
1950—1954	274	1,557	394	17.6	69.5
1955—1959	398	2,071	497	19.2	80.1
1960—1964	697	3,165	667	22.0	104.4
1965—1967	805	4,399	834	18.3	96.5
1950—1967	515	2,620	572	19.7	90.0

TABLE 26. Summary of Major Items of Capital Imports, 1950—1967 ($ million)

1. Gross capital imports		$ 9,265
2. Repayments on account of loans (principal)	1,693	
3. Investments abroad + return of investments	190	
4. (2) + (3): Total payments to abroad		-$ 1,883
5. (1)—(4): Net capital imports		$ 7,382
6. Grants		-$ 4,904
7. (5)—(6): Loans + net investments		$ 2,478
8. Estimated net investment		-$ 1,000
9. (7)—(8): Balance of debt to abroad at the end of 1967		$ 1,478

Source: Ministry of Finance.

2. Analysis of Capital Imports Forecast, 1968 — 1971

A number of aspects are significant in the forecast of capital imports:

a) A high flow of income from unilateral transfer payments, consisting principally of remittances by various national institutions as well as personal restitution from Germany. The anticipated growth in receipts of personal restitution from Germany is in accordance with the laws enacted by Germany on the subject. The continued high level of remittances through the National Institutions is a reflection of the deep interest expected from world Jewry in Israel's continuing extensive needs. A large flow of income is expected from the sale of Development Loan bonds. The consequences of the Six-Day War will involve large expenditures for many purposes in Israel. The fervent and enthusiastic response of world Jewry in 1967 gives ground for confidence that the greater needs during the years ahead will result in a large flow of funds from contributions and bond sales.

b) As a result of these trends, the public sector's share in capital import receipts will be relatively high in comparison with that of the private sector.

c) The flow of investments, which declined steeply during 1965—1967, will rise again as a consequence of the increased activity in the economy and the purposeful activities of the Government (including legislation), designed to encourage investment. At the same time, the economy will continue to repay its debts at a similar rate to that of the previous five years.

From the foregoing statements it may be inferred that the foreign currency receipts of the economy will continue to expand. This trend, in addition to the considerable revenue of 1967, will enable the economy to continue to grow and at the same time to bear the special burdens imposed upon it by the Six-Day War, and the additional burdens which followed it. It will also make it possible to bring about an improvement in the terms of the external debts; the volume of short-term loans can be reduced, the taking of loans bearing high interest can be avoided, and the early repayment of more costly loans will also be feasible.

As a result of these actions, Israel's external debt is expected to decline—though, incidentally, it will remain, relative to the population, among the highest in the world—and its composition is expected to improve considerably with respect to interest ratio and duration of loans. The forecast is as follows:

	End of 1967		End of 1971
		($ million)	
Total debt balance	1,556		1,478
Independence and Development Loans	718		943
Long- and intermediate-term loans from financial institutions	573		405
Commercial long- and intermediate-term loans	187		100
Short-term loans	78		30

TABLE 27. Forecast of Capital Imports to Israel[1], 1968—1961 ($ million)

	Actual 1966	Estimate 1967	Forecasts 1968	1969	1970	1971	Total 1968—1971
1. Total transfer payments (net)	306	496	480	445	395	370	1,690
Personal remittances	88	86	90	85	85	80	340
Personal restitution from Germany	110	120	130	140	160	160	590
Remittances by institutions and grants	108	290	260	220	150	130	760
2. Investments from abroad (net)	72	18	85	80	80	85	330
Investments from abroad	82	32	100	100	100	110	410
Less: Investments abroad	10	14	15	20	20	25	80
3. Receipt of long- and intermediate-term loans	305	401	305	260	220	220	1,005
Independence and development loans	124[2]	235	150	150	120	120	540
Other loans	181	166	155	110	100	100	465
4. Redemption and repayment of loans from abroad	191	176	145	200	160	170	675
U.S. and World Bank loans	21	43	25	25	30	30	110
Independence and development loans	113[2]	59	65	115	65	70	315
Other loans (including loans from Germany)	57	74	55	60	65	70	260
5. Increase in long- and intermediate term debts (3 — 4)	114	225	160	60	60	50	330
6. Net capital movements (5 + 2)	186	243	245	140	140	135	660
7. Net captial imports (6 + 1)	492	739	725	585	535	505	2,350

1) Excluding capital movements between Israel and the administered areas.
2) Includes conversion of previous issues amounting to $23.3 million.
Source: Ministry of Finance.

As a result of these activities, liquid foreign exchange balances will rise during the period by about 50% (from $845 million at the end of 1967 to $1,205 million at the end of 1971). This rise in balances is approximately parallel to the anticipated rise in the importation of commodities and services, and ensures balances to cover some seven months of imports, i.e., at the level of recent years, which has been proved essential for the regularity of imports and the prevention of upheavals in the economy.

If the annual flow of income from abroad does not increase at the predicted rates, the following is liable to occur: a) a fall in foreign exchange balances below the essential norm of seven months imports; b) impediments to the renewal of stocks and financing of activities required as a consequence of the Six-Day War; c) increase in the external debt and a worsening of its conditions; d) severe austerity in consumption and curtailment of investment, with resulting unemployment and slower growth.

CHAPTER FIVE: SAVINGS

Saving is commonly defined as the difference between income and consumption during a given period. The amount of saving within the economy is an important indicator of the rate of capital formation, since savings serve to finance investment. The accurate definition and measurement of both income and consumption are, however, difficult. This may lead to differences in the amount of saving, measured either by the amount of investment financed or by the difference between income and consumption.

Data on consumption, for instance, include the purchase of durable consumers' goods, and the cost of educational and health services. The latter are not pure consumption, since they have a considerable bearing on the economy's stock of human capital. The inclusion of these expenses as part of consumption in computing saving reduces the amount of the latter. Income, on the other hand, is commonly identified with national income for the computation of the economy's total savings. Special problems arise in Israel, where considerable transfers are received from abroad; although these are not a part of the national income, they are partly used for current consumption, especially by new immigrants. Part of these transfers are also used for investment, and the decision as to which part belongs to consumption and which to savings is difficult.

National saving can thus be defined in three different ways. The accepted definition subtracts total consumption from the national product, and does not take transfers into account at all. A second definition subtracts total consumption from the sum of national product plus current transfers from abroad. This definition — apparently a more accurate expression of saving — implies that most of these transfers, including pension payments from abroad (especially Germany) and unilateral transfers to health, educational and social institutions, are basically intended for consumption, and not for investment. This definition yields a higher figure than the first.

A third definition subtracts consumption from the combined total of the national product and all unilateral transfers from abroad. This expresses the point of view that the economy is free to decide on the use of all resources — production and unilateral capital transfers from abroad — for a variety of uses: part is consumed, and part is saved and applied to investment.

The second and third definitions raise considerable difficulties, especially in connection with the definition of "transfers for current consumption." This survey will deal with national saving in the light of the first definition, which subtracts private and public consumption from the total national product — among other reasons, for the sake of comparability with international data. We shall use Gross National Saving to indicate the economy's contribution to its gross investment, and Net National Saving estimates to examine its share in net investment, expressed as the growth of the stock of capital. Net

National Saving is computed by subtracting total consumption from the Net National Product.

REVIEW OF PAST DEVELOPMENTS

Let us examine developments in Israel in respect of saving since the State was established.

Table 1 will show that gross saving, as a percentage of the gross national product, increased from 5.5% in 1950 to 13% and more during 1963—65. During part of this period net saving was a negative quantity, saving being less than the corresponding year's depreciation. Since the end of the 1950's the economy has maintained positive net saving, reaching a record 6.2% of total production in 1961. The decline in 1962 demonstrates the inaccuracy which distorts estimates of saving based on official rates of exchange.[1] The considerably increased import surplus in 1962, computed in terms of Israel pounds, was largely due to the change in the official exchange rate after that year's 66% devaluation. The larger import surplus naturally had an influence on the size of computed saving. In 1965 the total of gross saving went up, mainly because of greater saving in the private sector.[2] It may be assumed that this increase was connected with a slowdown in the purchase of durables, which had been considerable during 1963—64, as well as large lump sum payments, due to the general regrading of jobs in the public service, to part of the salaried employees. Thus gross savings, as a percentage of the Gross National Product, remained stable in 1965, and the proportion of net savings also did not decline.

An alternative computation of national saving, which shows its contribution to the financing of investments, is obtained by subtracting the surplus of imports over exports from the total of investment in the economy.

Table 2 demonstrates that gross saving constituted a continuously greater portion of the total investment in the economy — from less than one-fifth during the early 1950's to about 50% in 1961, since when the percentage has remained stable. In 1956 the rate of saving went down sharply, because of the Sinai Campaign and extensive public consumption that year, and constituted a very small part of the National Product; it was much smaller than total depreciation and net saving was negative. The distortion in estimates of saving, stemming from the use of official exchange rates, is reflected in Table 2 with respect to gross saving as percentage of gross investment in 1962 (35.4%), and also with respect to that year's rate of net saving. Conversely, in 1965 net saving rose to 21% of net investment, owing to an increase in the amount of saving in excess of the rise in gross investment, and also to the decline in the balance of payments deficit.

Economic activity in general slowed down in 1966, followed by a considerable drop in gross and net investment, and in saving. As a proportion of the GNP, saving declined by 3.5%; however, the saving investment ratio remained at the 1965 level. On the other hand the share of net saving in financing investments declined to as low as 1.6%. The slowdown in the rate of

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1) Saving is computed on the basis of the official rates of exchange in force each year. This raises an additional difficulty, since in an economy with a considerable import surplus the rate of exchange has an effect on the level of saving. If the rate of exchange is below the effective level, this artificially increases the National Product by exaggerating the value added by every industry that uses imports.

2) The negative saving of non-profit organizations went up by IL 46 million between 1964 and 1965. Public sector saving was also negative, and rose in the same year by IL 238 million. Thus it is clear that the private sector was the only stimulant for the increase in saving during 1965.

TABLE 1. National saving at current prices, in selected years, 1950—1966

Year	Gross national product*	De-preciation	Net national product	Gross saving		Net saving	
				IL million	% of GNP	IL million	% of NNP
1950	470	18	452	26	5.5	6	1.3
1953	1,365	110	1,255	76	5.6	-34	(-)2.7
1956	2,652	214	2,438	80	3.0	-134	(-)5.5
1959	4.099	316	3,783	530	12.9	214	5.6
1961	5.499	438	5,061	750	13.6	312	6.2
1962	6,638	631	6,007	726	10.9	95	1.6
1963	7,986	765	7,221	1,038	13.0	273	3.8
1964	9,298	878	8.420	1,253	13.5	375	4.4
1965	10.997	1,022	9,975	1,449	13.2	427	4.3
1966	11,943	1,144	10,799	1,166	9.8	22	0.2

* At official rates of exchange.

TABLE 2. National saving and investment, 1950—1966

Year	Gross investment	De-preciation	Net investment	Import surplus*	National saving	
	(IL millions)				% of gross investment	% of net investment
1950	143	18	125	117	18.2	4.8
1953	401	110	291	325	18.9	(-)11.7
1956	740	214	526	660	10.8	(-)25.5
1959	1,114	316	798	584	47.6	26.8
1961	1,555	438	1,117	805	48.2	27.9
1952	2,102	631	1,471	1,376	35.4	6.5
1963	3,328	765	2,563	1,290	44.6	10.6
1964	2,979	878	2,101	1,726	42.1	17.8
1965	3,056	1,022	2,034	1,607	47.4	21.0
1966	2,518	1,114	1,374	1,352	47.4	1.6

* At official rates of exchange.

increase of the National Income during 1966 exceeded that in consumption. In 1967 the level of saving declined, primarily because of higher public consumption (mainly in connection with defence needs) as a result of the Six-Day War.

Now let us discussion national saving in the three sectors: the private sector, the public sector, and non-profit organizations.

1. SAVING IN THE PRIVATE SECTOR

Private saving is defined as the difference between gross disposable private income (from internal sources) and private consumption. During most of the period, this figure was larger than total national saving.

In recent years gross private saving totalled approximately one-fifth of private income. Private saving includes household savings and those of the business sector. It may, however, be assumed that saving by Israeli corporations is not particularly great, since: (a) large corporations can raise capital through development loans and approved investments; (b) many enterprises owned by the Histadrut receive finance from Histadrut-controlled pension funds; (c) the profitability of most Israeli corporations is not on a very high level. For these reasons, personal saving constitutes the major portion of private saving in Israel.[3]

TABLE 3. Gross private saving, at current prices, during selected years, 1950—1966

Year	Gross private income from internal sources*	Private consumption	Gross private saving**	Private saving, as % of gross private income
	(IL millions)			
1950	404	341	63	15.6
1953	1,181	1,024	157	13.3
1956	2,274	1,872	402	17.7
1959	3,275	2,772	503	15.4
1961	4,407	3,654	753	17.9
1962	5,283	4,416	867	15.7
1963	6,399	5,255	1,144	17.9
1964	7,376	6,122	1,254	17.0
1965	8,835	7,185	1,650	18.7
1966	9,494	8,000	1,494	15.7

* Gross national product, less income of the public sector from taxes, compulsory payments and property, less net transfers to private sector.

** Including depreciation allocations.

Table 3 presents the trends of the development of private saving during the period under review. Saving accounted for a relatively small part of private income during the early 1950's, but went up during the 1960's. The proportion of saving to income reached a level of 16 to 19% during the 1960's except for 1962, when the computation of saving was affected by devaluation. A relatively modest rise in Gross Personal Income occurred in 1966. The fact that private consumption rose to a greater extent in 1966 apparently indicates that this sector adjusted to the slow rise in income by reducing its saving rather than by slowing down the rise in its consumption. This phenomenon is especially clear in view of the decline in total saving during the year.

The inflation which characterized the Israeli economy almost uninterruptedly until two years ago apparently affected the composition of saving, rather than its amount. This holds true especially for personal and for business saving. Thus contractual savings, including mortgages for real estate acquisition, occupy a relatively large part of total saving. The desire to preserve the real value of savings found expression in schemes which linked the amounts saved to the cost-of-living index.

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[3] Non-profit organizations had negative saving during the entire period under review.

The results of surveys of saving can present a picture of private saving, although the data from these surveys are based on definitions different from those used above, referring to net personal saving computed on the base of disposable income. The main results of the five surveys of saving conducted so far indicate that personal saving is between 4 % and 6 % of average net disposable income. Outstanding is the relatively high proportion of saving connected with real estate — between 12.5 % and 14 % in each of the surveys.

TABLE 4. Composition of saving according to surveys, 1954–1964/65

	1954	1957–58	1958–59	1963–64	1964–65
Average annual disposable income, per unit investigated* (IL)	2,600	2,766	3,241	5,585	6,790
		Percentages			
Saving as percentage of disposable income	4.0	5.9	4.4	4.3	6.5
Saving, including durables	..	11.0	9.3	12.5	12.5
Contractual saving	..	4.6	4.9	5.6	5.4
Liquid saving	..	2.3	0.8	(-)0.1	2.6
Saving in real estate	..	13.8	12.5	14.0	13.5
Business saving	..	5.1	1.9	2.9	3.5
Durables	..	5.1	4.9	8.2	6.0
Compulsory loan	..	—	—	2.5	2.4
Employer's contribution to benevolent funds	..	..	..	2.0	1.7

.. No data available

* Income does not include one-time receipts. Saving as a percentage of disposable income was computed by addition of the various categories of saving. All one-time receipts were included as a negative component of saving; not listed in this table. The various items presented here, therefore, do not add up to total saving, and are merely intended as an indication of the main components of saving.

The large proportion of saving used to purchase real estate may be ascribed to the general tendency for housing to be bought rather than rented. This trend was reinforced by the mortgage banks, who made large sums of money available to the public for house purchase, part of which comes from Government deposits with the mortgage banks, earmarked for such loans. The portion of saving through the purchase of real estate also went up during 1962—64 because of the real estate boom at the time, which was a reflection of speculative expectations and widespread land purchases. This trend was weakened in 1965, and even more so in 1966 and 1967.

The data included in Table 4 refer to personal saving only. Unilateral transfers and personal restitution receipts are included in the surveys of saving and are expressed in their conclusions, while the national accounts do not include such receipts as income, as they do not represent payment for factors of production.

The trend toward saving, through the purchase of durable goods, has been strengthened since the beginning of the 1960's owing to the increase in personal income (owing, inter alia, to one time restitution receipts and back-pay of salary increases) and the high elasticity of demand for these goods. For the sake of convenience, acquisition of durable goods is included among data on private consumption, but it also has characteristics of saving.

A large portion of personal saving in Israel, which includes saving through social insurance funds, is contractual in nature. The law designed to protect the public's savings obligates these funds to place 80% of their accumulated resources in approved investments, half in Government securities and half in other approved investments.[4] Thus contractual saving constitutes an important instrument for the financing of governmental development projects. The surveys of saving indicate that in many instances participation in social insurance funds does not substitute for other types of saving, but is in addition to them.

Since 1962 the compulsory loan has constituted part of saving in the personal and business sectors, thus increasing private saving. During the period covered by the last two surveys of saving, 1963 and 1965, this type of compulsory saving amounted to 2.5% of disposable income. The compulsory loan was imposed at a fixed rate of income tax payments, and the public regarded it as a tax, reducing its disposable income, but there was no significant decrease in saving out of disposable income in 1963/64, and the rate of saving even rose in 1964/65. This fact indicates that the compulsory loan did not replace any other saving schemes, but supplemented them.

Comparison of the rates of saving by wage-earners and by the self-employed shows that the latter saved at a considerably higher rate than wage-earners with similar disposable incomes. In 1957 wage-earners saved 5.8% and the self-employed 8.3% of their disposable income. In 1964 the rate of saving by the self-employed nearly doubled, to 15%, while the rate among wage-earners declined to 4.8%. The additional saving by the self-employed mainly found the form of real-estate investments. The high rate of saving by the self-employed is explained by the fact that few pension schemes are available for them, so that they could be expected to put aside a larger portion of their incomes. A further explanation may be that the self-employed have more investment opportunities than wage-earners.

It may be stated that the total of saving in the private sector is not low in comparison with other countries. This is especially true of personal savings, the level of which is no lower here than in the United States, Great Britain, Canada, Holland or France. Business saving, however, is considerably lower in Israel, in spite of the fact that the self-employed save much more than wage-earners.

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[4] Social insurance funds are discussed in detail in the chapter on Monetary Policy and Credit Institutions.

2. PUBLIC SAVING

The public sector in Israel is made up of three major components: the Government, the local authorities and the national institutions. Unlike the private sector, the public sector creates negative saving. In other words, its current expenditure is larger than its current income from local sources (mainly taxes and other compulsory payments). The negative saving of the public sector is mainly the result of the operations of the national institutions, which finance most of their needs from foreign sources — in fact, the volume of their negative saving is to a great extent determined by the total of their receipts. Negative saving by the entire public sector, except for local authorities, can be explained by its extensive capital imports, which, together with internal loans, exceeded the volume of its investments during most of the period. Thus it may be said that during most of the period under review investments by the public sector were financed by the import of capital; as a matter of fact, part of public consumption was financed from the same source. Taxes and compulsory payments not only did not suffice to pay for this sector's investments, but they were even insufficient to cover the whole of public consumption.

During most of the period — except for the early years of the State and 1956 — the Government maintained positive saving, balancing to a certain extent the negative saving of the national institutions. Government saving increased between 1957 and 1961, but turned negative in 1962.[5] From 1963 to 1965 the Government created positive saving, in order to counteract the inflationary forces at work between 1962 and 1964. During 1963 and 1964 the Government considerably increased the amount of its saving by collecting more in taxes than was needed for the expansion of public consumption. In 1965 Government saving declined, especially because of greatly increased salary payments in the public service. In 1966 Government saving again turned negative, because lower tax collections were not balanced by a parallel decline in Government expenditure.

This slowdown in tax collection was caused by the recession and the stagnation in the growth of the National Product and of imports. Although the Government's negative saving was not deliberate, its appearance during a recession constitutes a boost to economic activity. The same effect continued in 1967, when Government outlay went up considerably, while tax income lagged far behind budget estimates.

Local authorities include municipalities, local councils, regional councils, religious councils and area authorities. Most of their income is derived from taxes, primarily property taxes and business taxes, and fees for various services. Local authorities also receive revenue from their property and allocations from the Government. During most of the period the local authorities maintained negative saving on a fairly limited scale. In 1962 and 1964 they had positive saving, on the limited scale of 7—8% of their current receipts. In 1965 and 1966 this again turned into negative saving, mainly owing to slower tax collection while expenditure rose rapidly — especially so in 1966.

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5) This negative saving was caused by, *inter alia*, the devaluation of February 1962.

TABLE 5. Net saving of the public sector, 1957–1966 (IL million)

Year	Total	Government	Local authorities	National institutions
1957	-103	1	-14	-90
1958	-98	9	-16	-91
1959	-43	44	-9	-78
1960	-40	53	-14	-79
1961	-57	94	-14	-92
1962	-133	-15	22	-140
1963	-45	103	35	-183
1964	82	262	20	-200
1965	-156	64	-16	-204
1966	-310	-72	-39	-199

3. SAVING BY NON-PROFIT ORGANIZATIONS[8]

Non-profit institutions furnish various health, educational, welfare, religious and social services, most of which are supplied to the household, either free or at nominal fees, on a non-profit basis. Expenditure on health by such institutions constitutes 70% of the total spent by public health institutions. In the fields of religion, culture and education they account for 41%, and they spend 25% of all the moneys spent by public bodies providing social welfare services.

TABLE 6. Gross saving* by non-profit institutions, 1957–66 (IL million)

Year	Net current income**	Consumption†	Saving
1957	133	174	-41
1958	156	202	-46
1959	179	229	-50
1960	213	265	-52
1961	235	292	-57
1962	275	339	-64
1963	321	382	-61
1964	383	430	-47
1965	446	539	-93
1966	510	598	-88

* Definitions in this table vary somewhat from those of Table 2.

** All receipts from households were considered current income.

† Purchases, less sales on current account.

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[8] Non-profit institutions are included in the private sector. They are here discussed separately because of their special nature, and because of the negative saving generated by them.

The share of non-profit bodies in the total expenditure by public institutions has declined in recent years in each category.

Income of non-profit institutions came from household and business (40%), transfers from the public sector (from 15% in 1961 to 23% in 1966), and the sale of services (18—20%). Transfers from abroad to finance current operations and investments declined in importance from 29% in 1957 to 24% in 1959, remained at 22% between 1961 and 1964, and dropped to 16% in 1966.

The volume of transfers from abroad enabled the non-profit institutions to maintain a considerable level of negative saving throughout the period, reaching a peak of IL 93 million in 1965. In 1966 their receipts from abroad declined, lowering their negative saving to IL 88 million.

Note: Tables in this chapter are based on data from the Central Bureau of Statistics and the Bank of Israel.

B. SAVINGS IN THE PLAN

The level of investment which the economy requires is determined by its growth targets during the period of the development plan. The gross investment required in 1971 will be IL 3,565 million — which largely determines the gross national saving needed to reach the development plan's targets. According to the plan, the import surplus in 1971 will be $ 395 million (IL 1,185 million at 1966 prices) and the difference between the required level of investment and the planned import surplus fixes the level of gross national saving in 1971 at IL 2,380 million, as is shown by Table 7.

TABLE 7. Gross National Saving 1966, 1971 (IL millions at 1966 prices)

	1966	1971
Gross saving	2,518	3,565
(less) import surplus	1,352	1,185
Total gross national saving	1.166	2.380
Private consumption	8,000	10.680
Public consumption	2,777	4,120
Gross National Product	11,943	17.180

The ratio of gross national saving to Gross National Product, which was 9.8 % in 1966, will rise to 13.8 % in 1971. The share of national saving in financing gross investment will grow considerably, from 46 % of total investment in 1966 to 67 % of total gross investment in 1971. Annual depreciation will be about IL 1,800 million, and net saving (defined as the difference between gross national saving and depreciation) will be 33 % of net investment in the same year. This rise in the rate of national saving will require a substantial effort on the part of both the private sector, which will have to increase its rate of saving, and the public sector.

A complete picture of the effort required from the economy by the development plan must also indicate the necessary ratio of saving to additional gross product during the period of the plan. During 1955—64, the marginal ratio of gross national saving to Gross National Product was 15.0 %. This marginal ratio, defined as the ratio of additional national saving to additional product during the above period, is far below the marginal ratio of saving taken into account for the accomplishment of the development plan. During the period of the plan, the economy will have to save 23.6 % of the additional gross national product in order to meet the required amount of investment, whilst maintaining an external deficit on current account of not more than $ 395 million. It is thus obvious that to increase the economy's rate of saving during the next four years new ways will have to be found to increase the propensity to save over and above the present trend.

It should be stressed that the effort to increase national saving is an integral part of the economic planning for 1971, whose aim is to help to achieve a structural change in the system and scope of production by planning an appropriate level of investment and finance. It is, therefore, obvious that a deficiency in the planned level of saving will cause a setback in the achievement of the required sources of finance, which will be reflected both by a slowdown in the rate of expansion of production for the domestic and foreign markets, and by an increased import surplus.

1. Saving in the Private Sector

As has been stated, the existing patterns of private saving in Israel (as described in the first part of this chapter), will not suffice to provide the necessary saving for the execution of the development plan. In the past, the private sector saved 16-18% of its gross disposable income from domestic sources, but in 1966 the rate declined to 15.7%. In order to generate sufficient saving, the private sector must increase its saving to 18% of its income during the period of the plan.

Table 8, which shows private saving in 1966 and 1971, is based on the assumption that gross private disposable income from domestic sources will reach IL 13,025 million in 1971. According to a forecast based on present objectives in respect to the growth of GNP and current incomes in the public sector, private income will actually be higher, but in such a case the public sector will create a considerable negative saving. Thus, total national saving will be IL 225 million lower than is required.[7]

TABLE 8. Gross saving of the private sector 1966 and 1971 (IL million at 1966 prices)

	1966	1971
Gross private disposable income from domestic sources	9,495	13,025
(less) Private consumption	8,000	10,680
Total gross private saving	1,495	2,345
Private saving as percentage of private income	15.7	18.0

The change in the rate of saving from 15.7% in 1966 to 18% in 1971 means that whilst total gross private income will rise by 37% during the period of the plan, gross private saving will have to rise by 56.9% at the same time. This rapid increase in the rate of saving can also be expressed in terms of the additional saving necessary in 1971 as compared with 1966. Instead of 16.4% during 1955—66 and 17.2% during 1963—66, the marginal rate of gross private saving will have to reach 24.1% during 1967—71.

As in the past, the private sector will bear the larger part of the savings burden of the economy in 1971; as indicated above, it will not manage to attain the required level of saving unless energetic steps are taken to encourage it. Even though quantitative data on business saving (which constitutes a part of gross private saving) are missing, it apparently does not amount to a considerable sum. Thought must be given, however, to encouraging business saving in Israel. This may be done by various fiscal measures, first and foremost by lightening taxation on companies' undistributed profits. Undistributed company profits might be increased, thus helping to increase business saving, by fixing higher tax rates on distributed profits and lower rates on the undistributed profits of limited companies. Greater discrimination in favor of individed profits will encourage the firms themselves to accumulate internal capital; at the same time, the diversion of profits to capital formation may lead to a reduction in distributed profits which is likely to somewhat restrain private consumption. It is known, however, that the majority of dividend recipients do not belong to those strata of the population with relatively low incomes, whose marginal rate of consumption is high.[8]

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[7] See discussion of saving in the public sector below.

An increase in household saving can be attained on four different planes:

(a) Financial Saving

During 1966—67, a substantial rise in the financial saving of the private sector was discernible.[9] Among the factors influencing the direction of this development, we may note the various saving schemes of the banks and, to a certain extent, the relative price stability which has recently prevailed. The expansion of financial saving schemes takes place on two planes: time-deposit schemes and index-linked saving schemes.[10] It is difficult, however, to determine whether the relatively high rate of interest paid to savers in time-deposit saving schemes is effective in attracting savings or encourages a general rise in saving. It may be assumed that the fact that the banking system offers the public various saving schemes (from a time point of view) will be a factor in the encouragement of private saving. The considerable increase in time-deposit saving which occurred in 1967 indicates that the public prefers this method of saving. It may therefore be assumed that, if a greater variety of linked saving schemes for different lengths of time were offered, emphasizing a lower minimum required amount of saving and with relatively high earnings, the rise in time-deposit saving would continue, and part of it would come from lower-income strata.

Price stability in the economy is usually regarded as constituting a positive factor in increasing the rate of private saving, since if the rise in prices offsets the interest received from saving — and, moreover, there is uncertainty as to a further rise in prices — individuals may prefer to abstain from financial saving. Under Israeli conditions, however, it is difficult to determine the extent of the influence exercised by the rise in prices on private saving. This is due to the existence of various saving schemes in which capital and interest are linked to the price index, so that any possible fall in the value of the saving following a price rise is largely offset. It may, therefore, be maintained that index-linking of as many saving schemes as possible will promote an increase in future saving.

(b) Saving for Housing

Another form of contractual saving through banking institutions is saving for housing. This, indeed, is also a form of private saving (and by no means a small proportion of private saving is directed to this channel), but the effectiveness of this kind of saving in its present proportions is to be doubted under the prevailing conditions, since it is directly harnessed to investment in dwellings.

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[8] Despite all that has said here, the fact that a reduction in dividend payments is liable to jeopardize the market for new share issues — owing to the understandable tendency of some investors to prefer investment in shares with high annual dividends, should not be overlooked.

[9] See chapter on monetary policy and credit institutions for detailed discussion of this subject.

[10] Time deposits linked to the cost-of-living index.

(c) Social Insurance Funds

Private savings accumulated in these funds accounted for a quarter of gross national saving in 1966, and amounted to IL 320 million. According to the available data, there were 520,000 members of social insurance funds in 1966.[11] This is an indication of the importance of the various funds in private contractual saving. Greater mobility between the various funds is to be recommended, for if an employee knows that his pension rights are assured even when he changes his job, more employees are likely to join the pension funds and thus raise the level of saving.

Another question requiring study is the inclusion of Government and public employees in the framework of social insurance funds. The inclusion of this sector (which numbers more than a quarter of the existing membership of the funds) would lead to a considerable increase in contractual saving, apart from an expansion of the rights of Government and other public sector employees, as compared with the budgetary pension rights which they enjoy at present.

On the other hand, it cannot be stated with certainty that the total amount of private saving will rise when these employees join the social insurance programs, since they may at present be saving, in other frameworks, , similar sums which they would not save if these sums were deducted as payments to the funds; moreover, they can afford to save because of the fact that their rights are covered completely by the employer. However, it would appear that regular monthly deductions from wages for social insurance funds are preferable because of the certainty regarding the amount saved.

Further encouragement of private saving is likely to follow the joining of suitable pension schemes by the self employed. A survey recently carried out by the Saving Authority[12] showed that one-third of self-employed persons interviewed expressed their wish to join the pension schemes offered to them. The survey also showed that only a small part of the self employed who wished to join these pension funds intended leaving other saving schemes in which they were already participating. These conclusions indicate that the level of private saving can be raised and that pension schemes for the self employed should be expanded.

(d) Insurance Funds

Life insurance schemes also constitute private saving in the framework of contractual saving. Life insurance is comparatively new in Israel and its growth depends to a large extent on the education of the population in this respect. The share of life insurance funds in the total financial liabilities of the economy is at present[13] small, but its annual rate of growth during the past two years was approximately 25 %.

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[11] An extensive discusion of social insurance funds and insurance institutions is given in the chapter on monetary policy.

[12] See: Ministry of Finance, Saving and Insurance Authority, and Bank of Israel; Survey of Pension Schemes for Sel-Employed and Saving Habits, August 1967.

[13] See Chapter on monetary policy and credit institutions, Tables 14—18.

One of the ways proposed to encourage saving through life insurance is to improve the system of income-tax relief. At present, an allowance of 25% of the saving is given on income tax to all insured who save IL 600 in insurance premiums. The following two steps are suggested as an additional incentive to increasing saving:

First, an examination of the marginal allowance which must be granted to savers in order to persuade them to increase their total saving. In other words, a minimum saving must be determined for the receipt of a certain rate of allowance, after which that rate of allowance must be calculated which will encourage the insured to increase his efforts to save more.

Secondly, a system should be fixed whereby the amount receiving a certain allowance is raised before all the concessions have been exploited at the former level. For example: if IL 600 has been fixed as the maximum amount that can benefit from the concessions, this ceiling must be raised before all the savers have reached IL 600.

2. Saving of Non-profit Institutions

As has been explained, this sector constitutes a source of permanent negative saving because of the sources of its finance and the nature of the services it provides. A reduction in its deficits (see Table 6) does not seem likely, since it is improbable that there will be a reduction, during the period of the plan, in the extent of reliance by non-profit institutions on sources of finance from abroad. On the other hand, a reduction in the activity of these institutions is not to be recommended, since the high social cost involved in a diminution of health and educational services is incompatible with the objectives of the development plan.

We may, therefore, expect a continuation of negative saving by this sector, to an amount that will be determined mainly by its receipts from abroad.

3. Public Saving

The public sector includes the Government, the National Institutions and the local authorities.

Public saving in 1971 must reach IL 35 million as compared with a negative saving of IL 329 million in 1966. Since in 1966 the negative saving of the National Institutions amounted to approximately IL 200 million and that of the local authorities to IL 40 million,[14] it may be stated that in order to enable total public saving to reach IL 35 million in 1971, the Government alone must increase its saving manyfold, for even if the local authorities manage to balance their income and expenditure in the period of the plan and avoid negative saving, the National Institutions will apparently increase their negative saving (as far as may be seen from the trend of the last few years) to a considerable extent.

It should be noted that the desired saving by the public sector would be realized only if it would allocate an additional amount of IL 260 million from domestic sources in order to make up the required amount of planned national

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[14] See Table 5 in this chapter.